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Politics this week

May 3rd 2007
From The Economist print edition

AFP

Turkey's prime minister, Recep Tayyip Erdogan, called for an early general election after the constitutional court rejected a parliamentary vote on his nomination of the foreign minister, Abdullah Gul, for president. Turkey's powerful generals say that Mr Gul has a hidden Islamist agenda. A million secularists rallied in Istanbul. Turkey's stockmarket fell sharply. See article

Russia reacted furiously to **Estonia's** removal of a Soviet war memorial from the centre of Tallinn to a military cemetery. Protesters blockaded the Estonian embassy in Moscow, prompting a rebuke from the European Union. Russia cut oil and coal exports. See article

Nicolas Sarkozy kept a small lead in **France's** presidential election. In a televised debate, he kept his cool under a blustering attack from his Socialist rival, Ségolène Royal. The voters will decide on May 6th. See article

Stranglehold

Venezuela's government took control of oilfields in the Orinoco heavy-oil belt previously operated by multinationals. It had earlier obliged the multinationals to sign new contracts under which they have become minority partners in joint ventures with the state. Meanwhile, President Hugo Chávez said that Venezuela would withdraw from the IMF and the World Bank.

Raúl Castro, **Cuba's** acting president, led government officials at the country's traditional May Day mass celebration. His elder brother, Fidel Castro, Cuba's convalescing leader, did not appear despite earlier speculation that he might.

Politicians in the English-speaking **Caribbean** expressed disappointment at the lack of foreign spectators at the seven-week cricket World Cup. In the final, played in Barbados, Australia beat Sri Lanka amid much confusion about the rules. See article

Olmert's battle

After being lambasted by a report into **Israel's** conduct of last summer's war in Lebanon, Israel's prime minister, Ehud Olmert, seemed to have fended off growing calls for him to resign, including one from his foreign minister. See article

Iraq's interior minister said that the leader of **al-Qaeda** in Iraq had been killed by other insurgents, suggesting a split over how to respond to government feelers to negotiate. See article

PA

Iraq's neighbours, along with representatives of the G8 group of rich countries, the European Union, the United States and the Arab League, met in the Egyptian resort of Sharm el-Sheikh to discuss ways of ending the mayhem in Iraq.

The International Criminal Court issued arrest warrants for Ahmed Haroun, Sudan's minister for humanitarian affairs, and Ali Kosheib, a leader of the *janjaweed* militia. They are charged with mass murder, rape and other crimes in **Darfur**. The Sudanese government has a legal duty to hand over the two men, but repeated its refusal to do so.

For the first time since last month's resumption of civil war in **Somalia**, African

Union peacekeeping troops gingerly patrolled the capital, Mogadishu, following the exodus of more than 300,000 civilians. But the UN Security Council called for a plan to deploy UN peacekeepers to take over from the floundering AU force, to which only Uganda has so far contributed troops.

Despite continuing calls by disgruntled opposition candidates and an array of foreign observers for last month's **Nigerian** presidential election to be run again, Umaru Yar'Adua was certified by the electoral commission to have won. He said he would review the “conduct” of elections for the future.

No comfort for some

Although rejecting their compensation claims on technical grounds, **Japan's** Supreme Court ruled that two Chinese women had indeed been abducted by Japanese soldiers and forced into sexual slavery during the second world war. The ruling came as Japan's prime minister, Shinzo Abe, visited Washington and repeated his half-apology for publicly doubting the Japanese army's role in coercing so-called “comfort women”. See article

China expressed its indignation as **Taiwan** persuaded St Lucia to switch diplomatic allegiance to it from the mainland. Meanwhile, China proposed a route for the Olympic torch in 2008 that would take it from Taiwan to Hong Kong, which Taiwan rejected on the ground that this implied Taiwan belonged to China.

The final obstacle to holding the long-delayed trials of former leaders of **Cambodia's** murderous Khmer Rouge regime was cleared: the local bar association dropped a demand to charge heavy fees to foreign lawyers participating in the trials.

A suicide-bomber killed at least 28 people and injured around 50, including **Pakistan's** interior minister, in the country's lawless North-West Frontier province.

The fledgling air force of **Sri Lanka's** Tamil Tigers bombed targets in and around Colombo, the capital, prompting some commercial airlines to suspend flights. See article

Troop trouble

As promised, George Bush wielded a veto, only the second of his presidency, against a military-spending bill sent to him by Congress because it set a Democratic timetable for pulling **troops** out of Iraq. Mr Bush held talks at the White House with both parties to seek a compromise. The Democrats said that a new bill must, at the very least, include “benchmarks” for Iraq. See article

Human Rights Watch, a worldwide organisation that has its headquarters in New York, issued a report on **Wal-Mart** that accused the retailer of denying basic rights to its workers by thwarting their attempts to organise in a union. Wal-Mart, America's biggest private employer, said the report was based on “unsubstantiated allegations”.

Supporters of **immigrant rights** took to the streets in several American cities. Fewer people took part than a year ago when similar events were held; Chicago saw the biggest protest, of 150,000 people. In Los Angeles, the police said they were investigating their handling of a rally that erupted into violence.

Celebrations got under way in **Jamestown**, Virginia, to mark the 400th anniversary of the founding of the first permanent English settlement in the New World. Queen Elizabeth II was due to visit the site this week. President George Bush is going to attend the festivities on May 13th. See article

AP

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Business this week

May 3rd 2007
From The Economist print edition

News Corporation, which counts the Fox television channels among its holdings, confirmed it had made a $5 billion friendly bid for **Dow Jones**, publisher of the *Wall Street Journal*. Rupert Murdoch, News Corp's boss, described his offer as generous, but the Bancroft family, the controlling shareholders in Dow Jones, rejected a deal. The company's share price soared by 55% as investors speculated about rival bids. See article

The board of **Cablevision Systems** accepted a $10.6 billion buy-out from Charles and James Dolan, respectively its chairman and chief executive. The Dolan family founded Cablevision, which serves New York with cable-TV and owns some of the city's best-known concerns, such as the New York Knicks basketball team and Madison Square Garden. They persuaded the board to go private after a lengthy campaign, but some shareholders are resisting the offer.

Bye-bye BP

Lord Browne resigned as chief executive of BP after a court lifted an injunction against a tabloid newspaper from publishing details about his relationship with a male escort. The judge in the case declared that Lord Browne had lied about the circumstances of the affair. Lord Browne is credited with turning around BP's fortunes through a series of transforming deals, but as he is resigning before he was due to retire in July, he will forgo a multi-million pound bonus. See article

Eni, Italy's biggest oil company, said it would buy assets in the Gulf of Mexico held by **Dominion Resources**, based in Virginia, for $4.8 billion. Eni has been operating in the United States since 1966 and said the deal would more than triple its production in the Gulf.

Delta Air Lines exited bankruptcy protection after a 19-month restructuring programme that saw it shed some 6,000 jobs. After several difficult years for the industry, Northwest Airlines is now the only big American carrier operating under bankruptcy protection, from which it expects to emerge this summer. See article

A philanthropic executive

David Sidwell said he would retire as **Morgan Stanley's** chief financial officer at the end of the year. Mr Sidwell, 54, wants to spend more time working with a care charity in New York.

Deutsche Börse agreed to acquire **International Securities Exchange**, which is based in New York and is America's largest equity-options market. The $2.8 billion deal is a boon for the German exchange, which has been thwarted in its previous efforts to combine with other institutions. However, analysts expect a counterbid for ISE given its fast-growing options business.

Spain's **Telefónica** said it and a group of Italian financial institutions would buy the *euro*4.1 billion ($5.6 billion) controlling stake in **Telecom Italia** held by Pirelli, a conglomerate. The decision is a disappointment for **América Móvil**, a Mexican mobile-phone operator, which had tried to secure the stake. Its endeavour (initially in partnership with AT&T)had met stiff resistance from Italian politicians who argued that TI was a strategic asset that should not fall into foreign hands. See article

Carl Icahn intensified his efforts to win a seat on **Motorola's** board by sending a letter to shareholders in which he criticised “oversight and leadership” at the mobile-phone maker. The investor castigated Ed Zander, Motorola's boss, for sounding “like something straight out of Alice in Wonderland” when he reportedly said he loved his job but hated his customers.

Edward Whitacre announced that he would retire as chairman and chief executive of **AT&T** in June. Mr Whitacre, who took up the posts in 1990 and is the longest-serving boss of a large telecoms company,

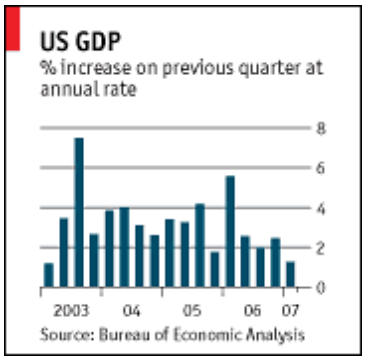
made several huge acquisitions during his tenure and is credited with instigating the industry's consolidation.

India's Foreign Investment Promotion Board decided that **Vodafone's** acquisition of a controlling stake in **Hutchison Essar**, the country's fourth-biggest mobile-phone operator, did not breach Indian regulations on foreign investment. The government had appeared to be in some doubt about approving the deal.

Ahold, one of the world's biggest food retailers, agreed to sell US Foodservice, its American distribution business, to a private-equity consortium for $7.1 billion. The sale severs Ahold's ties with the unit, which caused the Dutch company to restate earnings by $1 billion after an accounting scandal in 2003.

The knock-on effect

A sluggish housing market was given as the main explanation as to why **America's economy** grew at an annualised rate of 1.3% in the first quarter, the slowest growth in four years. See article



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KAL's cartoon

May 3rd 2007
From The Economist print edition

Kevin Kallaugher

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Turkey

The battle for Turkey's soul

May 3rd 2007
From The Economist print edition

If Turks have to choose, democracy is more important than secularism

Reuters

Get article background

AT A time when Muslim fundamentalism seems to be on the rise all around the world, the sight of somewhere between half a million and a million people marching through Istanbul in defence of secularism is a remarkable one. But then Turkey is a remarkable place. As a mainly Muslim country that practises full secular democracy, it is a working refutation of the widespread belief that Islam and democracy are incompatible.

That's not the only reason why Turkey matters. It is a big and strategically important country, has the largest army in NATO after America's, offers a crucial energy route into Europe that avoids Russia and is the source of much of the water in the Middle East. If the negotiations under way for its entry into the European Union succeed, it will be the EU's biggest country by population. But the reason that the world's eyes are fixed on it this week is the possibility that the army might intervene to limit Islam's role in government (see article). For if Turkey cannot reconcile Islam and democracy, who can?

Cyber soldiers

Over the years Turkish democracy has shown itself to be vibrant yet fragile. A string of military coups and interventions stand as testimony to the army's self-appointed role as the guardian of Kemal Ataturk's secular republic. The most recent instance came a mere ten years ago—the so-called post-modern coup that led to the ousting of a previous moderate Islamist government.

On April 27th the army suggested that it might do the same again. Just before midnight, after a day of inconclusive parliamentary voting for a new president, the army's general staff posted a declaration on its website that attacked the nomination of Abdullah Gul, the foreign minister, for the presidency, and hinted none too subtly at a possible coup against the mildly Islamist Justice and Development (AK) government led by Recep Tayyip Erdogan, the prime minister who nominated Mr Gul. On May 1st the constitutional court annulled the first round of parliamentary voting for the president, saying not enough members were present. Mr Erdogan promptly said he would call a snap parliamentary election. Street protests, first in Ankara and then in Istanbul, have heightened tension. The cities' coffee houses are buzzing with conspiracy theories.

Given the fractious state of the main opposition parties, and his government's record over the past four years, pollsters expect Mr Erdogan to win another thumping majority. He may then choose to stick with

Mr Gul for the presidency, or he may look for another candidate. But he is unlikely to pick one who meets the objections of the army and the secularists.

Turkey's secularists have always mistrusted the AK Party, which has Islamist roots and in government has sometimes toyed with moderate Islamist measures. They especially dislike Mr Gul and Mr Erdogan because their wives sport the Muslim headscarf, which in Ataturk's republic is banned in public buildings. They fret at the prospect of such people controlling not only the government and parliament, as now, but the presidency as well. They fear that once the AK Party has got that triple crown, it will show its true colours—and that they will be rather greener. Given that a fundamental reading of Islamic texts sees no distinction between religion and the state, and that fundamentalism is spreading in the Muslim world, it is understandable that people should entertain such fears.

Yet they do not justify a military intervention such as that of April 27th. However desirable it may be to preserve Ataturk's secular legacy, that cannot come at the expense of overriding the normal process of democracy—even if that process produces bad, ineffective, corrupt or mildly Islamist governments. Algeria, where 150,000 people died in a civil war after an election which Islamists won was annulled in 1992, holds a sharp lesson about what can happen when soldiers suppress popular will. Of course, Turkey is not Algeria; but armies everywhere should beware of subverting elections. It is up to voters, not soldiers, to punish governments—and they will now have the opportunity to do so in Turkey.

They may not want to. Mr Erdogan's government has been Turkey's most successful in half a century. After years of macroeconomic instability, growth has been steady and strong, inflation has been controlled and foreign investment has shot up. Even more impressive are the judicial and constitutional reforms that the AK government has pushed through. Corruption remains a blemish, but there is no sign of the government trying to overturn Turkey's secular order. The record amply justifies Mr Erdogan's biggest achievement: to persuade the EU to open membership talks, over 40 years after a much less impressive Turkey first expressed its wish to join.

Who cares what Europe thinks?

Unfortunately, the EU's enthusiasm for Turkish entry, never high, has visibly waned. Were Nicolas Sarkozy to win the French presidency on May 6th, that would be another setback to Turkey's ambitions: he is categorically against the notion of it ever joining the EU.

In practice there is no chance of Turkey actually signing on the dotted line for another decade. But the perception in the country that so many current members are against it matters, for it reduces the EU's influence. Were the prospects of EU membership obviously brighter, the army would not have intervened as brutally. As it is, the EU's mild condemnation was shrugged off in Ankara, especially when the Americans said nothing at all. Their influence in Turkey is also much diminished, mainly because the war in Iraq has inflamed anti-American feeling.

Given the West's declining influence on their country's actions, Turks themselves must resolve their political crisis. The best way to do that would be to reject the army's intervention by re-electing the AK Party. The secularists' fears of the creeping Islamisation are understandable; but the AK Party's record does not justify it, and military intervention is no way to avert it. For the sake of the state they are trying to protect, Turkey's soldiers should stay out of politics.

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Estonia and Russia

The right to be wrong

May 3rd 2007
From The Economist print edition

Estonia was unwise to provoke Russia—but deserves more support from its friends

Reuters

FOR a small country living next to a bad-tempered big one, life is often difficult. So it is easy to sympathise with Estonia (population 1.3m), the closest that eastern Europe has to a real economic and political success story, in its spat with Russia (population 143m). The removal last weekend of a Soviet-era war memorial from the centre of the capital, Tallinn, to a military cemetery provoked rioting and looting by local Russians, and furious protests of "blasphemy" from Russia itself (see article). Dozens were hurt; one man died. Kremlin-sponsored heavies have blockaded Estonia's Moscow embassy and jostled the ambassador; oil exports have been cut.

Russia is grossly over-reacting. But Estonia's tactics were gravely mistaken. The country's prime minister, Andrus Ansip, made the future of the war memorial an issue in the run-up to the general election in March, hoping to gain votes from patriotic Estonians for his own Reform party. He won handsomely. But he was playing with fire. The monument offends many Estonians; some nickname the hulking bronze figure the "unknown rapist". In 1944, a four-year Nazi occupation gave way to a more damaging, decades-long Soviet one. But for many ethnic Russians the bronze soldier symbolises wartime sacrifice and the defeat of fascism.

The damage done by Estonia's ill-explained move is out of all proportion to the gain. The government has now made the statue's removal a *cause célèbre* for every nutty Russian nationalist wanting to throw a punch. It has also undermined one of the great gains of the past 15 years: integrating many of the 300,000 Soviet-era (and often Soviet-minded) migrants and their descendants. Many have learned Estonian and acquired citizenship. They now feel their adopted country has betrayed them. The idea that Estonia's Russians might even set a good example for Russia itself has been derailed.

Worst of all, Russia may think Estonia is easily isolated. For days, a chilly silence prevailed in all big Western capitals, despite Russia's deplorable behaviour—first in whipping up sentiment in Estonia, and then in the grotesquely exaggerated responses orchestrated by the Kremlin. Relations with Russia are important, big countries mutter: why jeopardise them for a silly little country that has only itself to blame?

That risks making a bad situation still worse. Mr Ansip has blundered. But his country is nonetheless a commendably keen member of the European Union, and a loyal member of NATO too, contributing troops to the hairiest bit of Afghanistan. Estonia does useful work among other ex-communist countries, where it tries to promote reform, talk sense and calm rows. It deserves help, not to be left to twist in the cold wind from the east.

Russia should be told that its bullying is an intolerable echo of the past. Estonia's embassy in Moscow deserves proper police protection. Whatever their shortcomings, Estonia's politicians are not “fascists”. Contrary to the Russian media's allegations, the war graves around the monument have not been desecrated, but exhumed prior to proper reburial; the monument itself was not sawn up, but has already been re-erected nearby, in dignified surroundings.

The importance of this goes far beyond Estonia. If the Kremlin concludes that former Soviet satellites are not real members of Western clubs, but will be dumped by their allies once they blunder, the consequences for Europe's peace and stability will be lethal.

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America and Iraq

The White House feels the heat

May 3rd 2007
From The Economist print edition

EPA

Open war between Congress and the president over the debacle in Iraq

Get article background

THERE is nothing trivial or formulaic about the latest news from the Washington front in the war on terror. On May 1st, President George Bush cast only the second veto of his presidency, rejecting an attempt by both chambers of Congress to bring American troops home from Iraq. Never before has Congress passed a bill requiring the commander-in-chief to withdraw from a still-raging war. Only in the much less serious cases of Somalia and Haiti has it dared to cut off funds to troops in the field, as it is now doing in Iraq by making further money dependent on the president's accepting a deadline to leave Iraq. The constitutional crisis, for that is what it is, is much deeper than the one caused in the 1970s, when a war-weary Congress sought to end the deployment of American troops in Indochina. By the time Congress actually managed to pass its bill, the war had been ended by the Paris peace talks.

This impasse will benefit no one. It is perilous to the Democrats, whom the administration is now able to portray with some plausibility as undercutting hard-pressed fighting men. The length of troop deployments in Iraq has just been increased from 12 months to 15, and the funding crunch could force a further extension. And the veto came just days after General David Petraeus, the respected commander in the field, appealed for more time before the strategy of “surge”—the reinforcement of Baghdad—is judged: only three of an eventual five brigades destined for the capital have arrived.

General Petraeus promises a review in September. So far there are plenty of bad signs, notably the Americans' continued inability to halt a dreadful wave of car-bombings and of attacks on their soldiers in the capital. But there has also been some good news, such as a decline in the number of sectarian killings by death squads. It is surely right to wait until September, as the general asks, before passing judgment.

Nor do the Democrats' detailed withdrawal plans seem entirely logical. They establish a set of “benchmarks”—expanding the participation in government of the minority Sunnis, sharing oil revenues more fairly among all the main groups, improving the performance of the Iraqi army and police, rooting out sectarian militias and so on—for the government of Nuri al-Maliki to meet. But Congress's now-vetoed bill then proceeds to demand the withdrawal of troops anyway, just not quite so fast. Were Iraq's government really meeting the benchmarks, the case for remaining engaged in Iraq would be robust. Besides, setting arbitrary deadlines will only encourage the militants to go on fighting, and a precipitate withdrawal from Iraq will produce a far bloodier catastrophe than anything yet seen. In fact, the Democrats seem to recognise some of these pitfalls, which is why they are more likely to compromise than the president (see article). But the underlying constitutional crisis will not go away.

Grave peril for the president's party

The greater dangers lie on the Republican side of the aisle. Mr Bush now finds himself at odds with the clearly expressed will of Congress, which received a convincing mandate for what it is doing at last November's mid-term elections. He is also at odds with the clear majority of the American people, who according to all recent polls think that the Iraq war was misconceived and that America should pull out. Mr Bush, of course, does not face re-election. But around 20 of his 49 Republican senators, and all 201 of the Republicans in the House of Representatives, will face the voters in 2008. And there is, besides, the small matter of the presidential election itself. Every one of the declared Democratic hopefuls, but none of the Republicans, wants to get America out of Iraq in short order. In electoral terms, the Republicans face Armageddon next year.

So far, the Republicans in Congress have remained remarkably loyal to their president: only two of their senators and two representatives voted with the Democrats on the Iraq bill. But a number of others say they cannot back an unsuccessful war indefinitely. As the election gets closer, there is a strong likelihood that this support will crumble. Republican activists still back the president on Iraq, but independent voters side with the Democrats, and often have a decisive voice. Should a Republican presidential candidate emerge who openly opposes the war, he could start a stampede. And one such may well exist in the shape of Chuck Hagel, a much-decorated Vietnam veteran and a senator for Nebraska who hints at running.

Might the president eventually bow to the pressure his party is feeling? He has already accepted one previously ridiculed idea, that America start talking to Iran about Iraq. This week Condoleezza Rice, the secretary of state, was expected to sit down with her Iranian counterpart. If General Petraeus comes up with a gloomy assessment in September, even Mr Bush might start to cast around for a ladder to climb down. But the best solution, to enlist Europeans and Muslims alike in the stabilisation of Iraq, seems to be beyond his powers.

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Dow Jones

A race to the top

May 3rd 2007
From The Economist print edition

Why Rupert Murdoch would make a decent owner of the Wall Street Journal

EPA

IT IS wiser to appeal to a businessman's self-interest than to his altruism. When that businessman is Rupert Murdoch, a brilliant, predatory magnate who has made fortunes in one medium after another by gleefully cudgelling respectable notions of what it is to do the decent thing, altruism will not get you far at all.

Hence the anxiety among right-thinking people at Mr Murdoch's $5 billion offer for Dow Jones, which owns a news wire, some magazines and websites, and the *Wall Street Journal*, one of America's three national newspapers (and the chief global competitor of the *Financial Times*, part of Pearson, the largest shareholder in *The Economist*). After more than a century in the bosom of the Bancroft family, which these days is a model proprietor, the *Journal* now looks to be in danger from the meddling Mr Murdoch. What if he sacrifices its journalism to the pursuit of profit and political influence? American business depends upon reliable financial information that is promptly supplied. If the source of business news were poisoned, the country as a whole would be worse off.

There is charming irony in the idea of Mr Murdoch's many critics rushing to the defence of the *Wall Street Journal*. Its opinion pages are home to a brand of conservative commentary that makes Mr Murdoch's natural enemies wince. Yet as evidence of Mr Murdoch's baleful influence, the worriers can point to the *Sun* and the *New York Post*, two exultantly bullying tabloids; to the populism of the *Times* in Britain; to the dumping of a book that might have offended China; and, most controversially, to the pro-Republican Fox News, whose motto (“We report. You decide.”) is about as convincing as an anchorman's suntan. How long before the superb—and impeccably neutral—news pages of the *Journal* reflect News Corporation's desire to curry favour in China and Washington or to do down a rival?

It's not likely to happen, for three reasons. First, Mr Murdoch is not to blame for quality newspapers' move towards the mid-market. Without wishing to detract from the man's achievements, he has been not so much a wanton vandal or a pedlar of influence as a peerless and opportunistic exponent of inevitable change. Newspapers everywhere have been drifting downmarket in search of readers—and they are not about to stop now. If News Corporation had not smashed the print unions in Britain, someone else would have done the job instead. If News Corporation had not broken the hold of the television networks with Fox in America and BSkyB in Britain, another company would now be sitting in its place. Mr Murdoch is a symptom, not a cause, of the trends that have changed journalism over the past three decades; and he makes money by exploiting them.

Keeping up with the Dow Joneses

The second reason to welcome, rather than fear, Mr Murdoch's approach is that he is a brilliant businessman. Good businessmen make companies flourish. Flourishing companies have a better chance of making a good product and selling it to a lot of people. The *Times* may have shuffled downmarket since the days of Mr Murdoch's predecessors; but it is still a good newspaper, and many more people buy it these days than used to when it did not stoop to celebrity news.

Dow Jones offers Mr Murdoch more scope to construct than to wreck (see article). wsj.com is one of the few news subscription sites on the web that works. Because the *Journal*'s international editions are struggling, wsj.com has scope to expand outside America. Through Fox's new business channel, he can bring the expertise of its journalists to a new audience. That Dow Jones is a poorly managed, high-cost business only increases the scope for improvement.

That cushion of costs is one reason to think Mr Murdoch can make money from Dow Jones without harming its journalism. But there is a better, third, reason why standards at the *Journal* would be very unlikely to fall in Mr Murdoch's care: it is in his interest to keep them high.

It does not matter terribly to readers if the gossip about celebrities is true or exaggerated—indeed, when it comes to titillation, there is much to be said for falsehood. But financial news that is untrustworthy is useless. When readers do deals based on financial-news reports, they expect the information to be accurate, down to the last detail. If Mr Murdoch gets hold of the *Journal*, he will ensure that its reporting is excellent not out of altruism, but because, in the financial newspaper business, that is how you make money.

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Foreign aid

Right to bear alms

May 3rd 2007
From The Economist print edition

What conservatives get, and do not get, about foreign aid

EPA

ONE went quickly and quietly, the other is still fighting his corner. But the two men George Bush picked to lead the struggle against world poverty have both embarrassed the institutions they fronted. Randall Tobias, who directed America's foreign-aid efforts, resigned on April 27th after admitting he was a client of an escort service now being busted for prostitution. Meanwhile, Paul Wolfowitz (left), president of the World Bank, is still enduring a pummelling for his role in sweetening his girlfriend's exit from the bank, shortly after his arrival almost two years ago. As *The Economist* went to press, he had lost his authority, but not yet his office (see article).

The aid fraternity is fascinated and appalled by these two sorry affairs. But what about Mr Bush and his fellow conservatives? No great setback to their cause, you might think. Doesn't the right, after all, believe that aid is a waste of taxpayer's cash—money down a rathole?

The Bush administration has not taken that view. On Mr Bush's watch, giving to Africa has almost quadrupled, by some estimates. He has committed $15 billion over five years to the President's Emergency Plan for AIDS Relief (PEPFAR). And unlike Ronald Reagan, he picked a somebody, albeit a controversial somebody, to lead the bank.

What accounts for Mr Bush's enthusiasm for a cause so many conservatives have scorned? And, setting aside the personal failings of his two nominees, what of his approach to aid is worth salvaging?

The looser purse-strings owe something to the fiscal permissiveness of big-government conservatism. During six years of undivided Republican rule, Mr Bush splurged on all sorts of things, not just aid. But the new spirit of giving also stems from something deeper: churchgoing conservatism. The right has traditionally been scornful of public charity on the grounds that it is easy to be generous with other people's money. But the religious right, whose constituents feel a duty to the sick, the halt and the withered beyond their borders, want their tax-dollars to follow their prayers.

That charitable impulse is worth preserving. Unfortunately, it comes with some unhelpful strings attached. America's aid agencies, for example, can have no truck with those who promote abortion. They also demand that the groups they fund explicitly oppose prostitution—an illiberal imposition on freedom of speech, even before Mr Tobias's indiscretions undermined the man who enforced it.

America's religious conservatives are also keen to promote abstinence. A third of the money PEPFAR spends preventing AIDS must be devoted to discouraging sex before marriage. Chastity is certainly one way to escape the perils of sexually transmitted diseases, and in some countries, notably Uganda, it has been more successful than many expected. But it is not an end in itself, and PEPFAR should be free to

put its money wherever it will do the most good, whether that be drugs, sermons or condoms.

The role of faith remains a lingering worry within the World Bank, too. Mr Wolfowitz's unfortunate choice as managing director, Juan José Daboub, a former finance minister of El Salvador, believes in a “quixotic fusion of free-market magic and profoundly Catholic conservatism”, according to a senior bank official. He says Mr Daboub tried, but happily failed, to downplay the bank's role in family planning in its new strategy on health and population.

Politics as a vocation

Religious convictions are not a great part of Mr Wolfowitz's own style of conservatism. But what, if anything, do the neocons, of whom Mr Wolfowitz is a canonical example, have to teach about aid? Not much, was the general consensus among the World Bank's staff when Mr Wolfowitz was named to lead them. The neocons, surely, were about power, not money.

But he arrived at a time when the bank, and other aid agencies, were beginning to acknowledge that power and poverty are linked. As the neocons had long recognised, a due respect for the sovereignty of states should not blind you to the character of a regime. In the past the bank had too often averted its eyes, refusing to see the political effects of the money it lent. As a result, its aid added to the spoils by which feckless governments stayed in power.

The Bush administration professes grand aspirations for aid, which it believes can sow democracy as well as eradicating pestilence and poverty. The World Bank cannot, and should not, go that far. Its goal must remain the apolitical one of raising living standards in the developing world. But in its methods, it should not be naive about the political forces that often stand in the way of that goal. Taking a lead from the neocons, the bank should hope to inspire reform and underwrite reformers, even if doing so ruffles the feathers of some in its member governments. To cling to the status quo—under which the bank was too ready to lend, and too reluctant to offend—would be a meek conservatism of the worst kind.

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Spain's economy

Plain sailing no longer

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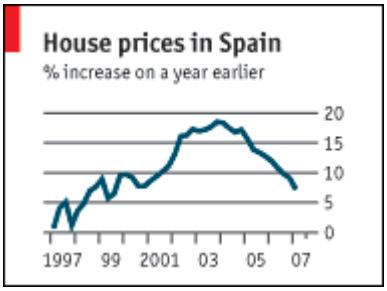
From The Economist print edition

Cheap money has fuelled Spain's boom. The future does not look so easy



FOR a decade or more, the Spanish economic galleon has been blessed with a following wind and full sails. It has outrun the OECD average in nine of the past ten years and the euro-area standard for all of the past dozen. A country that in 1994 had an unemployment rate of almost one in five has provided work for lots of immigrants as well as many more of its natives. Almost two-fifths of net new jobs in the euro zone since the creation of the single currency have been Spanish ones. Only a few years ago, the thought of Spanish fashion chains, banks and construction companies swashbuckling their way around the globe in search of booty would have seemed preposterous. Now, as our special report describes, they are doing precisely that. Yet in home waters at least, more difficult conditions are ahead—and Spain's weaknesses are about to be exposed.

For some time two hazards have been visible. One is a giddying rise in house prices, which have climbed by 180% in the past decade, more than doubling in real terms. The market has so far been steadying—property-price inflation fell to 7.2% in the year to the first quarter—but the recent collapse of a property company's share price shows that the stockmarket, at least, is worried. No wonder, when the market is overvalued and oversupplied and housebuilding accounts for 7-10% of GDP, depending on your measure.

The second is the country's current-account deficit, which in absolute terms trails only that of the United States. At more than 9% of GDP, it mainly reflects Spanish business's thirst for borrowing. Lending to companies has risen by 30% in the past year. The euro zone's central bankers are fond of repeating that its members' current accounts are no more meaningful than those of Tennessee or Texas, but Spain's deficit does tell you something: how tilted towards domestic demand—including construction—the country's economy has become.

The booms in building and borrowing have been helped along by Spain's membership of the euro zone, which has made credit much cheaper for people and businesses. In the run-up to the creation of the single currency, Spain benefited as its interest rates tumbled towards German levels. Since the euro came into being, monetary conditions have remained pretty loose. Spain's inflation rate has consistently exceeded the euro-area average by a percentage point or more, making its real interest rates correspondingly lower and giving an extra puff to an economy already going at a rate of knots.

Granted, there is more to the Spanish story than the cheapness of borrowing in euros rather than pesetas. Like Ireland, which has also had a vertiginous housing boom, Spain has a high proportion of people of the age to buy a first home and start a family. The rise in female employment has increased families' incomes and what they are willing to pay for a home. Many foreigners as well as Spaniards have had both appetite and wherewithal for a second home in the sun and by the sea. Still, cheap money has played an important part.

The other side of the coin

Now, though, Spain may be about to see the other side of life in the euro zone: interest rates are rising and the currency is climbing, just as the economy is set to slow down. Even though economists think growth stayed strong in the first quarter (perhaps 4% in the past year), it is likely to lose strength—maybe abruptly, if the housing market is unkind.

In some ways, Spain is well placed for this test. The government has run a budget surplus for the past two years (even allowing for the economic cycle) and gross debt is only around 40% of GDP, so fiscal policy can help out should the economy slow sharply. In other ways, though, it is poorly prepared. One

obvious means of rebalancing the economy, devaluing the currency, is ruled out, so Spain must find another method of bringing down its real exchange rate. It will have to look hard. Wages have been hitched to the country's higher-than-average inflation rate. Productivity growth has been woeful (even though, admittedly, to some extent this reflects high employment growth). The result has been a 12% increase in unit labour costs, relative to the euro-area average, since 2000.

Spain's “dual” labour market is no model, despite its remarkable job-creation record. That as many as a third of workers are on temporary contracts suggests some flexibility. But there are so many such contracts precisely because employers find permanent workers expensive to fire—and thus to hire. Recent reforms have done too little to close the gap in costs between the two types of contract. In product markets, too, Spain should do more to loosen its economy and let in more competition. In the past few years, Germans have found that it is possible to win competitiveness in a currency union. But they have also found that it can hurt. So might the Spanish.

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On the OECD, plastic bags, guns, pedicabs, the Falklands

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The OECD

SIR – The Organisation for Economic Co-operation and Development is a rules-based institution with extensive checks and balances. The decisions you discussed in your article relating to the hiring of staff, administration and the use of resources were all taken in strict adherence to existing rules, regulations and codes and, when necessary, approved by the OECD Council ("An angel flies into some flak", April 21st). Some date back to before I became secretary-general.

Modernising and upgrading governance are permanent features of the OECD. I have earmarked resources in the 2007-08 budget to undertake an extensive review of human resources, budgeting, financial and ethics policies to ensure continued best practices. These include a severe curtailment of my own prerogatives for directly appointing senior staff, which I proposed.

Although new leadership in any institution generates opposition both by those who resist change and by those who are displaced or affected by it, I am very encouraged by the strong statements of support, recently received, from ambassadors, staff and directors of the OECD. We all want to move forward to fulfil the very substantive agenda of enlarging the organisation, of promoting reform in member and non-member countries, and of better management of globalisation. This is where we will focus our efforts.

Angel Gurría
Secretary-general
OECD
Paris

Green bags

SIR – Carl Olson's letter in support of plastic bags strikes me as counter-intuitive (April 21st). Although they are indeed a "useful invention" and cheap to produce, their effect on the environment is massive. Imposing a levy on plastic bags encourages people to reduce waste. A levy has been in place in Ireland for some time now and it is seen as a positive move that has drastically altered shopping habits without disruption. This is similar to the recent introduction of a ban on smoking in public places. Initially there was resistance, but now it is widely accepted as a positive thing, with us smokers being the most vocal supporters.

Guy Handelman
Dublin

Rapid fire

SIR – Your leader on the mass shooting at Virginia Tech called for gun regulations to be tightened ("America's tragedy", April 21st). Apart from the evident fact that Cho Seung-hui should have been institutionalised long before he committed his crimes, not one of your suggested changes to America's gun laws would have prevented him from obtaining high-capacity, semi-automatic handguns. With sufficient cash, criminals, who tend not to obey high-minded anti-gun laws, can buy weapons like these on the street in almost any large city.

John Blaylock
Los Alamos, New Mexico

SIR – I applaud your idea of banning guns. Perhaps we could model such a ban on the successful prohibition of cocaine. Once guns were banned surely no one would be able to get access to them. If they did, the government could launch a “war” against the sale and use of such weapons. This war would certainly be effective and be limited to reasonable costs. I don't see how anything could possibly go wrong with the plan.

Karl Reitz
Washington, DC

SIR – While agreeing that people sometimes misuse guns, the same can be said for knives, baseball bats and cars. Gun control has been tried in the past. The Nazis took away a right to weapons in Germany and then led millions to the slaughterhouse. That is why I support the private ownership of guns without any regulation including, especially including, registration of the weapons. My idea of gun control is: breathe, aim, squeeze.

David Bush
Houston

SIR – You implied that buying an AK-47 on the internet is a lot easier than it actually is. When bought online, an AK-47 must be shipped from a federally licensed seller to a federally licensed dealer representing the buyer. The dealer must then fill out the appropriate paperwork and conduct a background check.

Myron Fristad
Benson, Arizona

SIR – Gun control through regulation is already built into the second amendment of America's constitution: “A well regulated militia, being necessary to the security of a free state, the right of the people to keep and bear arms, shall not be infringed.” Citizens who wish to own guns for the purpose of supporting “the security of a free state” should be subject to regulatory requirements to undergo training, attend drills and perform periodic service in a state-militia counterpart to the National Guard. As in other military organisations, mental health and emotional screening would be part of the standards for militia membership, which in turn should be the qualification for keeping and bearing private arms.

Steve Marquardt
Lake Lillian, Minnesota

SIR – You mentioned a mass shooting at the University of Texas in 1966 (“Standing their ground”, April 21st). What you didn't mention was that Austin's residents took hunting rifles from their pick-up trucks and returned fire at Charles Whitman. Texans are good shots and they kept him pinned down at ranges of 500 metres, saving countless lives until the authorities eventually shot him.

John Burton Bute
Seabrook, Texas

Not fare

SIR – You swallowed the line that taxi drivers don't like bicycle taxis because they compete for fares, even though such pedicabs travel over very short distances that would normally be covered on foot, not in a taxi (“On your bike”, April 21st). The reasons why taxi drivers—as well as, incidentally, local and national authorities—object to pedicabs are a little less self-interested than that.

London's 7,000 licensed taxi drivers have everyday experience of pedicabs as unregulated death-traps that are not subject to parking restrictions, traffic regulations and maintenance standards. They have entirely unregulated fares and their drivers are not trained. Pedicabs may appear to be a fun, climate-friendly, transport mode, but in fact they are accidents waiting to happen and have no place in a busy modern city.

Bob Oddy
General secretary
Licensed Taxi Drivers' Association
London

The playing fields

SIR – While reading your article about the Falklands I thought how easily this dispute could be settled on the football pitch ("Their island story", April 7th). Anyone can fight a war. Not everyone can play proper football. England and Argentina should play a match for the islands. Surely these two football-loving nations could muster up enough courage to play in a true battle. The United Nations could provide the security, as they did in Port-au-Prince for the Brazil-Haiti friendly in 2004.

John Riley Campbell
Atsumionsen, Japan

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Waiting for al-Qaeda's next bomb

May 3rd 2007
From The Economist print edition

A group plotting to bomb Britain has been successfully prosecuted. But the danger of al-Qaeda is growing, and the intelligence services are struggling to cope

PA

Get article background

THE young men debated endlessly how best to carry out their attack. Co-ordinated explosions on Britain's gas-distribution network were a “beautiful plan”, but difficult. Poisoning London's water supplies was a “weak idea”. Seizing an airliner and crashing it would be “easy”, while blowing up the “slags” (loose women) dancing in the Ministry of Sound nightclub would have a “crazy” impact.

This was no idle bravado from disenchanted Muslims. Omar Khyam, now 25, and six fellow plotters had stashed away 600kg of ammonium nitrate fertiliser, the main ingredient for one or several remote-controlled bombs. At one point, during a conversation in a house in west London, one plotter asked: “Bruv, you don't think this place is bugged, do you?” No, replied Mr Khyam: “Do you know, I think we give them too much credit, bruv.”

As it turned out, their words were being recorded by Britain's domestic intelligence agency, MI5. The fertiliser had been secretly switched with an inert substance, and an MI5 agent posed as a receptionist at the storage centre where it was kept.

Mr Khyam was arrested within weeks, as he was preparing to leave for Pakistan. Six others were also arrested, and an eighth suspect is awaiting trial in Canada. During a trial lasting more than a year, the court heard of other possible targets, such as blowing up the British Parliament (“a joke”, claimed Mr Khyam). On April 30th, Mr Khyam and four other suspects were sentenced to life in prison. Two others were acquitted.

“Operation Crevice”, as the investigation was known, was at the time the biggest anti-terrorist operation in Britain. At its peak in February and March 2004, it consumed some 34,000 man-hours of intelligence and police work. The plotters' homes and cars were bugged, hidden cameras recorded them in internet cafés and undercover agents followed their movements around the clock.

The British authorities' ability to neutralise the bombing campaign is an important success, but it will also be remembered for a catastrophic failure: two of the four suicide-bombers who blew themselves up in London on July 7th 2005, at first said to have come “out of the blue”, had in fact been spotted with Mr Khyam's gang several times (in our picture, the two bombers flank Mr Khyam, who is second from right). But they were thought to be peripheral and were not followed up.

Relatives of some of the 52 victims want an independent inquiry into the London bombings. The government says this would “divert” the security services from their real job of seeking terrorists. MI5 took the unusual step of issuing a detailed rebuttal of “myths” surrounding the case. “The Security Service will never have the capacity to investigate everyone who appears on the periphery of every

operation," said its head, Jonathan Evans.

The limits of intelligence

In contrast with the small, tightly organised bombing cells of the Irish Republican Army (IRA), which did everything to protect their own and often gave warnings to reduce casualties, MI5 and the police now have to contend with an opposite threat: a diffuse nebula of overlapping *jihadi* groups, ready to destroy themselves in order to kill as many people as possible. "We are seeing networks within networks, connections within connections and links between individuals that cross local, national and international boundaries," said Peter Clarke, the head of the counter-terrorism branch of London's Metropolitan Police, on April 24th. More than 100 people are currently awaiting trial in Britain on terrorism charges. But in Mr Clarke's view, "The only sensible assumption is that we shall be attacked again."

Britain is a particularly attractive target for global jihadists because of an unfortunate coincidence of factors: its prominence as America's ally in the wars in Iraq and Afghanistan, and the fact that al-Qaeda's resurgent core leadership, based in Pakistan's frontier region, has easy access to the thousands of Britons who visit their ancestral country every year.

Other Western governments are closely watching developments in Britain. Europeans are worried that their own Muslim minorities could become radicalised as al-Qaeda seeks to exploit other diaspora links—Algerians in France, Moroccans in Spain and Italy, Turks in Germany. The violent re-emergence of Algeria's Salafist Group for Preaching and Combat (known by its French acronym, the GSPC), which has rebranded itself as al-Qaeda's branch in the Maghreb, is particularly alarming. Muslims farther south, across the largely ungoverned Sahara desert, might be indoctrinated, trained and sent back to Europe.

For America, the worry is that "clean skin" European citizens, with no known record of radicalism, could be used to attack the United States. The alleged conspiracy last summer to blow up as many as ten aircraft flying between London and the United States with liquid explosives, if proven in pending trials, would reinforce the belief that al-Qaeda has regenerated and is growing again in ambition.

The first line of defence is intelligence, not least because very little information on extremists is being provided by Muslim minorities. In Britain MI5 is expanding substantially, from 1,800 staff in 2001 to a projected 3,500 in 2008. But the number of suspected terrorist networks is growing exponentially, roughly doubling every year since the invasion of Iraq in 2003.

Dame Eliza Manningham-Buller, MI5's recently departed head, said in November that her service was tracking more than 1,600 known active militants (up from 250 in 2001, according to a parliamentary report). Those extremists operated in a pool of perhaps 100,000 sympathisers who, according to one poll she cited, thought the London bombings were justified. Referring to a popular British television series about MI5, Dame Eliza said: "I wish life were like 'Spooks', where everything is (a) knowable and (b) soluble by six people."

In fact, surveillance uses manpower intensively. Dozens of people are required to keep track of a single suspect 24 hours a day. Those deemed to pose a "threat to life" take precedence, but these days there are so many of them that MI5 has to decide which threat to life appears to be the most acute. Indeed, some security officials suspect al-Qaeda may be deliberately flooding Britain with terrorist plots in the hope of overwhelming its defences.

Shadows on the path

Operation Crevice was a turning point in the British authorities' understanding of the threat posed by al-Qaeda. Until early 2004, the main terrorist danger to Britain was deemed to come from extremists outside the country. At most, some British Muslims were thought to be supporting such groups abroad and sometimes setting out to join them in *jihad*.

PA

Khyam inspecting the fertiliser...

In April 2003 two Britons of Pakistani descent set off explosive belts outside a beach-front bar in Tel Aviv, killing three Israelis. At the time, says Mr Clarke, Britain was “a net exporter of terrorism”. The worst fears of the police came true on July 7th 2005, when four Britons (three of Pakistani descent, one of West Indian) blew themselves up on the London Underground and on a bus. Although security forces had been expecting attacks, the fact that they were dealing with suicide-bombings came as a surprise. Just a month earlier the Joint Intelligence Committee, which draws up assessments from information gathered by several intelligence services, had concluded that suicide-attacks were not likely and would not become the norm in Europe. After all, the Madrid bombs in 2004 had been detonated with mobile telephones, while Mr Khyam and his plotters also planned to use a remote-controlled device.

More surprises were to come. During the investigation into the July 7th bombings (and into the alleged attempted bombings two weeks later), MI5 soon discovered that the two main instigators of the successful attack, Mohammad Sidique Khan and Shehzad Tanweer, had crossed their path before, particularly on the fringes of Operation Crevice. Khan had been spotted on five separate occasions and had even been followed, but was not identified. MI5 picked up some of Khan's conversations with Mr Khyam, and said these dealt mainly with financial scams. But a transcript shows that during one rambling conversation they also talked about doing “operations” from Pakistan. At one point Khan asks Mr Khyam: “Are you really a terrorist, eh?”

After the arrest of the Crevice plotters in March 2004, MI5 drew up a list of 55 suspects who had come into contact with Mr Khyam's group. Fifteen were deemed “essential” targets; Khan and Tanweer were on the lower-priority list of 40 “desirable” suspects who should be followed up when resources permitted.

By July 2004, however, MI5 and the police diverted their manpower into another, even bigger investigation in which one suspect, Dhiren Barot, a Hindu convert to Islam, pleaded guilty last November to planning several possible attacks and received a 40-year prison sentence. Mr Barot had considered a series of attacks, including a radioactive “dirty bomb” and a plot to blow up limousines filled with gas cylinders in London. He had also planned attacks in America. Six others have pleaded guilty to assisting him, while a seventh alleged conspirator is standing trial.

Mr Clarke admitted that at the time of Mr Barot's arrest police did not have any evidence admissible in court. Only at the end of the 14-day detention period then allowed by law did police find the required evidence on Mr Barot's computers.

By the time of the London bombings in July 2005, investigators still did not know (or had not tried hard enough to find out) Khan's name. The first clues came from the wreckage of the London Underground. A SIM card identified a smashed mobile telephone as belonging to one of the men who had been in contact with Mr Khyam (although at the time the owners of pre-paid phones did not have to provide identity details). The picture from a passport found at the site was circulated among surveillance staff, who identified Khan as one of those seen during Operation Crevice. After the London bombings Mohammed Junaid Babar, a Pakistani-American computer programmer now in jail in America on terrorism-related charges, identified newspaper pictures of Khan as someone called “Ibrahim”, who attended an al-Qaeda training camp in Pakistan with Mr Khyam (alias “Ausman”). But there is some dispute over whether he was shown the right surveillance pictures of Khan in 2004.

Critics of MI5 say it should have been able to join the dots. The House of Commons' Intelligence and Security Committee (ISC) concluded last year that the decision not to give Khan greater priority was, given limited resources, “understandable”. Not everyone is convinced, however, that the committee saw all the material the security agencies had. Rather than agreeing to an independent inquiry, Tony Blair, the prime minister, has asked the ISC to take another look instead.

The Pakistan connection

As MI5 went back through its records, it found it had other information on Khan (but under a slightly different spelling) dating back to 2003, when he was identified as a “facilitator” for extremists in Pakistan. Mr Khyam, too, had originally come to the attention of counter-terrorism officials in 2003 as a suspected “courier” carrying cash and outdoor equipment for Kashmiri militants. Clearly the security agencies had, and still have, great difficulty in identifying who, among the many sympathisers and supporters of *jihadi* causes abroad, will make the transition to carrying out attacks in Britain. There is no obvious profile of a suicide-bomber, and both Mr Khyam and Khan were comparatively well integrated into British society.

A central factor in radicalising some British Muslims has undoubtedly been Britain's involvement in the war in Iraq, but other factors are at play. Militant preachers, and the proliferation of *jihadi* websites and internet chat rooms, have helped to create a climate in which many Muslims accept al-Qaeda's simple unifying narrative: Muslims across the world are being attacked, from Algeria to Palestine, Iraq, Chechnya and Kashmir; Muslims everywhere must therefore rise up against their principal oppressor, America, and its fellow Western “crusaders”.

AFP

...and training in Pakistan

Security sources say *jihadi* activity has moved away from mosques to clubs, gyms and private homes, where it is harder to monitor. The internet has proved to be an “ungoverned space” where al-Qaeda and its followers have thrived. On April 23rd, a British court started hearing the trial of three men accused of inciting terrorism overseas. They include Younis Tsouli, of Moroccan origin, who is alleged to be a prolific internet propagandist going by the name of “Irhabi 007”, or “Terrorist 007”. He and another suspect are also accused of conspiracy to murder in a case linked to suspects arrested in Bosnia. “Of all the things I have seen over the past few years,” says Mr Clarke, “one of the most worrying has been the speed and apparent ease with which young men can be turned into suicidal terrorists.”

Self-starting terrorism is an ever-present danger. But over several investigations, counter-terrorism officials have usually found direct links leading back to Pakistan, often to al-Qaeda figures. Key British suspects travel back to Pakistan for training and indoctrination. Mr Khyam and Khan are alleged to be linked, through a British middleman, to Abdul Hadi al-Iraqi, the alleged number three in al-Qaeda, who was taken to Guantánamo Bay last week.

This is both reassuring and alarming. It indicates that, for the moment, British networks still need outside help. At the same time, it shows that al-Qaeda has regenerated itself despite its eviction from Afghanistan and the killing or arrest of several key figures. Its networks, says Mr Clarke, “are large, fluid, mobile and incredibly resilient”. Counter-terrorism experts disagree on what is more important: the “push” provided by al-Qaeda leaders seeking to mastermind attacks in the West, or the “pull” of local extremists who adopt al-Qaeda's ideology and modes of action.

Either way, in Britain al-Qaeda has found an easy source of recruits. Sometimes they are amateurish, but even unsophisticated attacks can cause devastation. In any case, security sources say, other networks are learning from the mistakes of their peers, and from the information gleaned in court prosecutions.

The British government has reorganised its counter-terrorism effort. Four joint police and MI5 regional offices are being established to strengthen counter-terrorism work outside London. Meanwhile, the Home Office is losing responsibility for probation and prisons to a separate ministry of justice, freeing it, in theory, to focus on security, terrorism and immigration. Within the department a special office for security and counter-terrorism has been created, while the prime minister will chair monthly meetings of a national security committee.

The struggle for Muslim allegiance

However, the problem goes far beyond the security bureaucracy. The effort to counter radicalisation in Britain has barely begun. The secretary of state for communities and local government, Ruth Kelly, has announced a “hearts and minds” campaign. It includes strengthening moderate imams and preventing

mosques from being taken over by extremists.

But extremist thinking is often best confronted on its own terms. In countries such as Saudi Arabia and Yemen, the authorities send Muslim scholars into prisons to try to convince *jihadi* detainees that their actions run counter to Islamic jurisprudence. In Britain, though, prisons are still a recruiting ground for *jihadi* groups.

Those fighting terrorism are acutely aware that much of their work, based on intelligence, is regarded with suspicion. Tensions with many Muslims have been exacerbated by raids, searches and incidents such as the shooting of a man (accidentally, say police) during a raid in the Forest Gate neighbourhood of London in 2006, when police searched in vain for evidence of a chemical bomb.

Counter-terrorism officials feel frustrated that the succession of court cases, such as the conviction of Mr Khyam and his fellow plotters, is failing to build more public trust. Partly this is because it can take two years for cases to come to court, and partly it is because of legal restrictions on public reporting before trials (and increasingly during and even after them, to avoid prejudicing other prosecutions).

Greater public trust is vital to improving the flow of information about extremists. For the moment, says Mr Clarke, most terrorism-related investigations begin with intelligence gathered from foreign governments, intelligence agencies or electronic eavesdropping. In other words, many Muslims are reluctant to report co-religionists to the police, even if they disagree with their militant views. Unless the code of silence is broken, more bombers will inevitably get through.

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The candidates: Rudy Giuliani

From America's mayor to America's president?

May 3rd 2007 | NASHUA, NEW HAMPSHIRE AND NEW YORK
From The Economist print edition

AP

We begin a series on the main presidential contenders for 2008 with the Republican front-runner

HE ENTERS the room like an affable tornado: pumping hands, patting backs and flirtatiously stealing a morsel from a giggling female fan's breakfast plate. Crowds love Rudy Giuliani, the mayor who led New York through the trauma of September 11th 2001. But in his quest for the presidency this pro-choice, pro-gay Republican must somehow convince his party's primary voters that he is conservative enough.

Perhaps that explains a slip he made before an audience of suits in Nashua, New Hampshire, last week. Mr Giuliani bragged that George Will, a conservative columnist, had called his stewardship of the Big Apple the “most conservative” government in America in the past 50 years. What Mr Will actually said was that Mr Giuliani had provided the most successful example of conservative governance in America in the 20th century. To most Americans, that is a much bigger compliment. But before Mr Giuliani can make his case to most Americans, he must win over the Republican base.

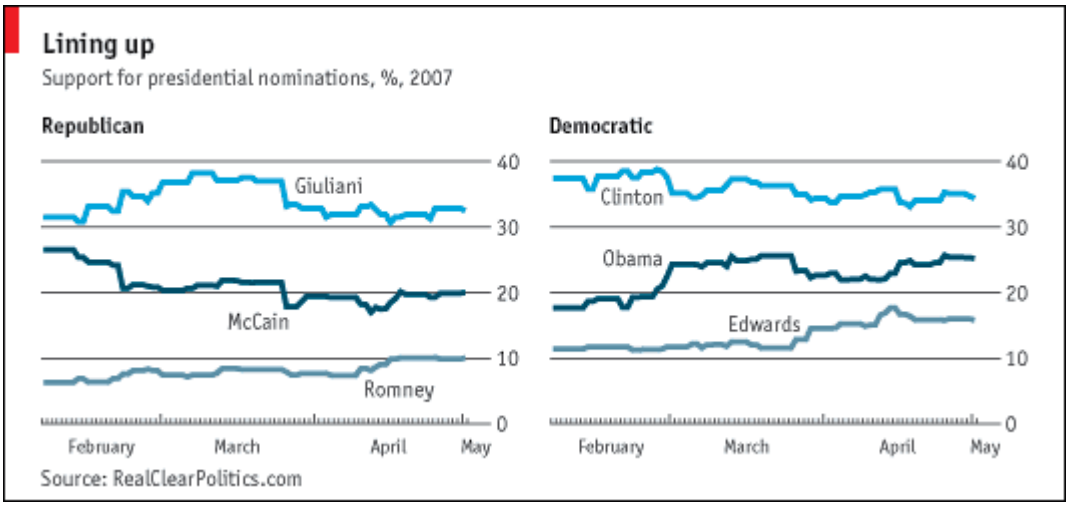
At this early stage, the polls say he is the front-runner: around ten points ahead of John McCain and at least 20 ahead of Mitt Romney among Republican voters. If he does win the Republican nomination, the polls show him breezing past Hillary Clinton, the Democratic front-runner, though they say he would only tie with Barack Obama, who is still well behind Mrs Clinton in the polls. Given the nation's snarlingly anti-Republican mood, these are extraordinary numbers. Voters say they would far rather elect a Democrat than a Republican, but when asked to compare named Democrats with Mr Giuliani, they mostly prefer the man who, after September 11th, was dubbed “America's mayor”.

A rising star

Chatting with random folks in New Hampshire, where the first primary will be held early next year, reveals why. Mr Giuliani has star power. Even the jobless drunks and the apathetic students have heard of him. The same is true of Mrs Clinton and Mr Obama, of course. But unlike Mr Obama, Mr Giuliani is famous for substantial achievements. And unlike Mrs Clinton, he is best known for things nearly all Americans applaud. He was unflappable as the World Trade Centre came crashing down beside him, and he slashed New York's awful crime rate. Tough on terrorism, tough on crime—the slogans practically

write themselves.

Mr Giuliani's record in New York was indeed impressive. The city he took over in 1994 was considered ungovernable. This was not true: it had merely been atrociously governed for decades. Successive Democratic mayors had rewarded dysfunction, showering bureaucrats and welfare claimants with cash but requiring neither group to work (much or at all, respectively).



One in six New Yorkers drew welfare. Crime raged unchecked. Aggressive beggars and public urinators ruled the streets. As Fred Siegel observes in “The Prince of the City”, a biography of Mr Giuliani, New York's counter-cultural elite fought ingeniously to protect the rights of the anti-social. The New York Civil Liberties Union argued, for example, that peddlers of stolen goods could not be barred from setting up shop on the pavement, because if they sold books (among other stolen items) their free-speech rights would be infringed by moving them on.

By the early 1990s New Yorkers were in despair. Six out of ten told pollsters they wanted to move elsewhere. Some were even prepared to vote Republican. Mr Giuliani, a former anti-Mafia prosecutor with a reputation for rudeness and results, beat the ineffectual incumbent, David Dinkins, by a slim margin. Almost immediately, things started to change.

Mr Giuliani cracked down on the things that made the city unliveable, such as the “squeegee merchants” who wiped windscreens at stop lights and demanded money with veiled menaces. He appointed a police chief who refused to overlook small crimes and thereby curbed big ones, not least because so many of the people arrested for dodging subway fares turned out also to have guns, drugs or outstanding warrants. He bucked up police morale, which under Mr Dinkins had been so low that one policeman sued the city over the “health hazard” of being ordered to patrol a rough neighbourhood. Crime halved under Mr Giuliani and murders fell by two-thirds, transforming New York from one of the most dangerous cities in America to one of the safest.

He forced welfare claimants to clear up the city's filthy parks in exchange for their cheques. He also had them fingerprinted to curb fraud (a random check in neighbouring New Jersey had found that nearly a quarter of claimants there also claimed benefits illegally in New York). The welfare rolls shrank by 600,000.

Mr Giuliani broke a lot of things that needed breaking, such as the Mafia's control of New York's fish market and its rubbish-collection service. He sold off vacant public housing to private landlords who fixed it up and put tenants in it. He failed to turn around New York's lamentable schools, however, and his vows to trim the city's payroll and restore fiscal prudence proved hollow. He increased New York's debt by 50% and left his successor with a $4.5 billion deficit.

Overall, Mr Giuliani's great achievement was to apply common sense to a city that had abandoned it. Naturally, he made enemies. The many people he insulted detest him, as do most black New Yorkers. Although African-Americans were the main beneficiaries of the fall in crime, since they were the ones getting murdered, black leaders claimed that Mr Giuliani had made the streets safer only through racist brutality. “There was no crime in Nazi Germany,” said Mr Dinkins.

In fact, New York's police were less likely to shoot people under Mr Giuliani than they had been under Mr

Dinkins, and only one-seventh as likely as in black-run Detroit or Washington, DC. But the news is about stories, not statistics. So when in February 1999 some inexperienced cops unloaded 41 bullets into a blameless African immigrant they thought was reaching for a gun, Mr Giuliani's enemies went on the offensive. Al Sharpton, a prominent black Democrat, declared that “If they can shoot anyone 41 times, they can shoot everyone 41 times.” Mr Giuliani's polls plunged. Had al-Qaeda not intervened, he would have left office unpopular.

Rude Rudy

As a presidential candidate, Mr Giuliani has two weak spots: his policies and his personality. His economic policies—low taxes, free trade and light regulation—differ little from those of the other leading Republicans. But his instincts on social issues are quite liberal. As mayor, he supported gun control, public funding for abortions for poor women and formal domestic partnerships for gays. Such views place him solidly in the American mainstream, but will repel those Republican primary voters who think that guns deter tyranny, abortion is murder and gays are somehow undermining heterosexual marriage.

So Mr Giuliani is trying hard to play down his social liberalism. On gun control, he says he “understands that what works in New York doesn't necessarily work in Mississippi or Montana.” On abortion, he says he supports “reasonable restrictions” such as a ban on partial-birth abortion, and that he “hates” abortion generally. And he indulges in hair-splitting on gays, arguing in favour of “domestic partnerships” but against “civil unions”.

AP

The hero of the hour

Whether Republicans can stomach all this depends in part on how much they want to win. Nick Sosnowski, a pro-life student who met Mr Giuliani as he campaigned in a diner in New Hampshire, says his stance on abortion and his three marriages bother him, but “that's outweighed by his leadership. And we need a strong leader right now.”

Mr Giuliani's personality may be a bigger problem. He has a hideous temper and a tendency to bully. His personal life suggests a man who is, to put it bluntly, not very nice. He let his second wife know he was leaving her for his mistress via a news conference. His son no longer talks to him.

He is famously and foolishly intolerant of criticism: when the city buses ran ads boasting they were “Possibly the only good thing in New York Rudy hasn't taken credit for,” Mr Giuliani forced them to drop the ads, and was then embarrassingly beaten in court. And even Mr Giuliani's admirers admit he can sound callous. Of another young black man mistakenly shot by police, he said: “He's no altar boy.” It turned out he had been.

Most seriously, Mr Giuliani has at times shown woeful judgment. He sacked his best police chief, William Bratton, for attracting too much limelight. He hired another, a former prisons boss called Bernard Kerik, who turned out to be flamboyantly dodgy. While he was prisons boss he accepted a $165,000 gift, in the form of renovations to his apartment, from a construction firm with alleged mob ties seeking to do business with City Hall. He also failed to report a $28,000 loan from a property developer and held trysts with his mistress in an apartment set aside for the use of workers at Ground Zero.

This relationship was especially embarrassing for Mr Giuliani since, before the scandals erupted, he had persuaded George Bush to nominate Mr Kerik as homeland-security chief. That nomination was withdrawn after Mr Kerik admitted that he had failed to pay taxes for a nanny. Mr Giuliani later confessed that he had been briefed about other people's early doubts about Mr Kerik, but said he had then forgotten about them. As the campaign heats up, Mr Giuliani can expect frequent reminders of this lapse.

In the end, Americans must decide whether the man who saved New York can also govern America. The jobs are very different. The city was rotten; the nation is not. And Mr Giuliani may just be too metropolitan for middle Americans. The most popular footage of him on the internet shows him doing a comedy skit in a purple dress and blonde wig, during the course of which he slaps an amorous Donald Trump. To New Yorkers, this is no big deal. But it may raise eyebrows in Iowa.

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Iraq

Deadlock accomplished

May 3rd 2007 | WASHINGTON, DC
From The Economist print edition

The president wields his veto pen

Get article background

THE theatre of war may be bloody and confused, but the theatre of politics is slick and well-rehearsed. On May 1st, four years to the day since President George Bush landed on an aircraft carrier before a banner reading “Mission Accomplished”, the Democrats sent him a bill setting a timetable for American troops to pull out of Iraq.

Nancy Pelosi, the speaker of the House of Representatives and Harry Reid, majority leader in the Senate, held a solemn signing ceremony before sending it to the White House for the inevitable veto. Asked why she picked May 1st, Ms Pelosi said it was the first day she had time to sign it. No one was fooled. The anti-war crowd rallied furiously all day, in public and on the internet. Americans United for Change, a pressure group, launched a television ad mixing Mr Bush's “Mission Accomplished” moment with footage of American soldiers getting blown up.

Mr Bush promptly vetoed the bill, snapping that “it makes no sense to tell the enemy when you plan to start withdrawing,” since “all the terrorists would have to do is mark their calendars” and begin plotting how to take control of Iraq. Democrats had their rapid rebuttals ready. “With one stroke of his pen, President Bush has stubbornly ignored the will of the American people, the majority of Congress and, most disturbingly, the realities on the ground in Iraq,” said Barack Obama, in an e-mail to every journalist following his presidential campaign.

When the posturing was over, the question remained: what next? The Democrats have made it clear they want to get out of Iraq as soon as is practical. Mr Bush has made it equally clear that he will not allow Congress to tell him the war is lost while he still thinks it can be won. But since Congress controls the purse strings—the withdrawal plan was attached to a bill authorising funds for the entire military operation—the two sides have to reach a compromise. Congressional leaders, both Democrats and Republicans, met Mr Bush on May 2nd to discuss the options.

The Democratic base is howling for confrontation. One idea is to revoke the authority Congress originally granted Mr Bush to go to war. This is championed by Bill Richardson and Joe Biden, both presidential aspirants. Another idea, put forward by Representative John Murtha, is to put Mr Bush on a short leash by funding the war for only a couple of months at a time. The top Democrats in Congress, however, seem to favour more gradual tactics. So do their two front-runners for the presidential nomination in 2008, Hillary Clinton and Mr Obama.

If the Democrats simply cut off funding for the war, they could be blamed for whatever follows a sudden American withdrawal. That would include, at best, a huge loss of face for America and at worst, genocide in Iraq and a spreading of *jihad* beyond its borders. A better plan, the party's leaders are suggesting, would be to give Mr Bush the money he needs but demand that the Iraqi government meets “benchmarks” on the road to a political settlement. If the Shia-dominated Iraqi government can agree on a formula for sharing power and oil revenues with the country's angry Sunni Arab minority, that might forestall civil war and allow America to withdraw with honour. If they fail to meet the benchmarks Congress sets, they might be deprived of non-military aid. Many Republicans could accept this, but would it work? Too many Sunnis think they have a right to rule and every Shia remembers how awful it was when they did.

Most Republicans, meanwhile, are still backing Mr Bush's “surge” strategy, hoping that sending more troops to Iraq's bloodiest spots will restore a measure of calm. The extra troops will not all be in place until June, but the surge is showing some signs of success. The less crazed killers—Shia and Sunni militias fighting over power and turf—have greatly reduced their kill rate. But the al-Qaeda types, who want to spill as much blood as possible in pursuit of impossible goals, are proving impossible to deter.

They are the ones who carry out the sensational suicide attacks, General David Petraeus, the commander in Iraq, told Congress last week.

The most likely outcome is that the Democrats will give Mr Bush money for the surge, hedged with cosmetic conditions. But he will not have long to make it work. The public has all but given up on Iraq, and Republicans know it.

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The Democrats

The politics of fish

May 3rd 2007 | COLUMBIA
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Trawling for votes

APRIL 26th marked the first of many showdowns between the rivals vying for the Democratic nomination for the presidency next year. For 90 minutes, the candidates patiently answered predictable questions, and at the end of the debate, held at South Carolina State University, most people reckoned that Hillary Clinton had had the best of it. But the debate was just the precursor to an even more important ritual—Representative James Clyburn's famous annual “fish fry” the following night.

Mr Clyburn is the first black to serve South Carolina in Congress for almost a century, and is now the Democratic majority whip there. His fish fry, held in a parking lot in Columbia and attended by more than 1,000 enthusiastic Democratic activists, was unmissable. All six of the top-tier presidential candidates happily took the bait.

That's because at least half of the voters in South Carolina's first-in-the-South Democratic primary election on January 29th are expected to be black. Mr Clyburn's endorsement would be a huge plus for anyone lucky enough to receive it. Not that Mr Clyburn will necessarily give his blessing to anyone. “I don't have any intention of doing that,” he said. “I'm not saying that I won't, but that's not my intention.”

He was gracious to all the candidates at the fish fry. The candidates themselves were busy shaking hands and chatting up the partygoers, who munched on fried whiting with mustard sauce on spongy white bread. Mr Clyburn introduced John Edwards—a former senator from North Carolina, born in South Carolina and the winner of the 2004 primary in the state—as “our homeboy”; Mr Edwards, to look the part, had shed the suit he had worn at an earlier fancy dinner and put on blue jeans.

As they were introduced, each of the candidates—particularly Mrs Clinton, Barack Obama, and Mr Edwards—was welcomed ardently by the raucous crowd that stood packed like sardines. Mr Obama, especially, was accorded movie-star status. “He touched my hand, he touched my hand!” exclaimed one middle-aged black woman as the smiling Illinois senator wove his way through the crowd.

Mr Clyburn argues that South Carolina is a microcosm of the country, with a large black population (29% of the total), growing numbers of Hispanics and four distinct geographical sections, each with different political priorities. He thinks his state is a much better gauge of the views of the American electorate than 93% white Iowa and 95% white New Hampshire, whose caucuses and primary, respectively, will precede South Carolina's. Which makes it well worth a plate of fish.

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New York's courts

Judging the judges

May 3rd 2007 | NEW YORK
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New York's steamrolling governor proposes much-needed court reform

LAST month a Brooklyn jury convicted Gerald Garson, a former matrimonial court judge, of taking bribes. The trial revealed that he had fixed divorce cases in exchange for top-notch liquor, meals, cigars and cash. His arrest in 2003 prompted investigations into judicial corruption and the selling of judgeships. One in ten Brooklyn judges were said to be under investigation at one point.

New York state's judges are elected by districts based on its 62 individual counties, and many of these counties are either strongly Democratic or strongly Republican. This means that many judgeships are not so much elected as awarded in backroom intra-party deals, with a fair degree of attendant corruption. Indeed the current system for electing state Supreme Court justices—actually the lowest level of judges—has been deemed unconstitutional in two federal court decisions. A special commission on New York's courts, set up by Judith Kaye, the state's chief judge, recently noted that New York state has the “most archaic and bizarrely convoluted court structure in the country”.

Influenced by that report, Eliot Spitzer, New York's governor, proposed a number of reforms on April 26th. Independent nominating commissions would be established to evaluate and screen candidates, who would then be appointed on merit by the governor, rather than elected. This change, though, will require an amendment to the state's constitution.

Mr Spitzer also wants to consolidate trial courts into a two-tier system across the state. His reform package would increase the number of Supreme Court judges to help offset growing caseloads. He is also proposing constitutional amendments to allow the creation of another appellate court division to handle cases.

He has proposed, too, a salary increase for state judges, the first in nine years. Judges would receive a salary of $162,100, compared with the $136,700 they have been getting since 1999—less than some lawyers make straight out of law school. The cost of living has increased by 26% since then. Higher pay would lessen the temptations of corruption.

The Republican-led state Senate also introduced a wage bill last week giving pay rises to the judiciary. At the same time, however, senators set up a commission to consider pay hikes for all government branches, including themselves. Mr Spitzer is reluctant to support their bill unless they also support his campaign-finance reforms, which they have previously rejected.

The governor and the legislature are likely to battle over other plans of his. He wants to shore up abortion choice in New York. And on April 27th he introduced a proposal to make New York only the second state to allow same-sex marriage, after Massachusetts. Joseph Bruno, the state Senate majority leader, thinks the governor has his priorities wrong; he should be advocating other issues, such as making more use of the death penalty.

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The San Francisco Bay area

In a jam

May 3rd 2007 | OAKLAND
From The Economist print edition

A road melts in a car-crazy culture built around a bay

ABOUT 280,000 cars drive across the Bay Bridge that connects San Francisco to the East Bay every day, and rush-hour “melt-downs” among those trying to get on or off it are routine. Not usually in such a literal sense, however.

Early last Sunday, James Mosqueda, who once spent time in prison for using heroin, barrelled a truck carrying about 32,500 litres (8,600 gallons) of petrol around a bend in the motorway ramp, overturned it, and climbed out moments before his cargo ignited in a towering blaze that topped 1,000°C. Mr Mosqueda, with burnt hands and face, staggered through the empty streets of night-time Oakland until he found a taxi that took him to hospital. The fire, meanwhile, melted the steel in the connector ramp that crossed above until it collapsed onto the ramp below, leaving a picture of drooping asphalt that Salvador Dalí might have painted.

In most places, this might have passed as a nasty accident; in the Bay Area, which combines a typically American car culture with an atypical topography, it instantly became an emergency, and was officially declared one by Arnold Schwarzenegger, California's governor. Many of the area's residents work on the western peninsula, stretching from San Francisco to Silicon Valley, but can afford to live only in the counties east of the bay. This means commuting, often for hours a day, through choke points on the roads leading to the bridges. When any one node fails, all the others get more choked. This was worst after a big earthquake in 1989, when part of the Bay Bridge collapsed and a nearby viaduct fell onto its lower deck, crushing 42 people to death and causing months of disruption.

The obvious remedy is more public transport. As part of this week's emergency, all trains, buses and ferries were free for a day, and people actually used them, behaving in ways that bordered on the European. But the Bay Area is not set up like a European metropolis. Most suburbanites have quite a drive just to get to an underground station, and must then win a vicious struggle for parking to make it onto a train. By the middle of the week, most commuters were back in their cars, and it was the same old nightmare, just slightly worse.

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Jamestown at 400

Celebrating a fort of sticks

May 3rd 2007 | JAMESTOWN, VIRGINIA
From The Economist print edition

Virginia does its best to be careful and multicultural

THE American mania for observing “firsts” is flaring anew, this time in Virginia. With help from President Bush, Queen Elizabeth II and some deep-pocketed corporations, the nation is this month observing the 400th anniversary of the founding of Jamestown, the first permanent English settlement in the New World.

A scruffy band—104 men and boys, of whom more than half died in the first year—endured privation and disease to create a colony with a mixed legacy, 13 years before the *Mayflower* sailed. Jamestown introduced a health menace, Virginia weed, or high-quality tobacco, to the Old World and slavery to the new, as well as representative government. Along the way, Native Americans were driven off their land, the beginning of the long sorry tale of their dispossession. Jamestown's history—or what passes for it—still inspires plenty of hot debate among both academics and politicians.

Tourism officials argue about it, too. Anniversary celebrations are not necessarily popular. The 200th anniversary last year of the Lewis and Clark expedition drew few tourists, though $70m-$100m was spent on it by state and local governments. Officials worry, too, that the mass shootings earlier this month at Virginia Tech, in Blacksburg on the opposite side of the state, will discourage visits to the once-swampy spot in the eastern Virginia tidewater where a stick fort once rose in honour of James I. But Virginia taxpayers have already paid $100m for this observance, so it had better draw the punters in.

And it had better be multicultural, for this is delicate ground. Academic research may have answered lingering questions about the first African slaves in 1619—“20 and odd Negroes”, as they were described by John Rolfe, a tobacco merchant. He went on to marry Pocahontas, an Indian princess who is more famous for her supposed romance with Captain Smith, one of the early Jamestown leaders. In the 1990s, a professor at the University of California at Berkeley found records in a Spanish archive that suggest some slaves, who were originally bound for Mexico aboard a Portuguese ship, were snatched by British pirates and may have been delivered by them to Jamestown. The Africans were probably from what is now Angola, and probably Christians, since their homeland had converted to Christianity under the Portuguese in the 1500s.

The history of Virginia slavery, neglected for years, is now a political preoccupation. Virginia has just become the first American state officially to express remorse for slavery. Although this was not quite a full-blown apology—the word is never used in the resolution that was passed this winter by the General Assembly—the pronouncement inspired a *mea culpa* by another former slave state, Maryland. North Carolina and Alabama have done the same, though a similar move in Georgia failed. But the gesture by Virginia, which elected the nation's first black governor in 1989, did not come easily. One Republican legislator, whose forebears owned slaves, complained that an apology was unnecessary, because blacks “should get over” slavery.

Native Americans, too, are trying to use the Jamestown observance to their advantage. Virginia tribes are pressing for federal recognition of the kind Congress has already extended to about 560 others, many of them in the West. However, some Virginia officials fear the tribes will use federal recognition to open casinos on their small, rural reservations. Though the tribes say they won't, their lobbying efforts in Washington, DC, are worrying a state with a limited tolerance for gambling.

The tribes' push in Congress is part of a larger effort to establish their presence in Virginia. In the 1920s the state, renowned for racist policies even in an age of segregation, attempted to remove all references to Native Americans from official records because some health authorities, wedded to eugenics, deemed Indians genetically inferior. Last summer the tribes spotlighted their direct tie to England, sending a 54-member delegation to meet local and national officials and to visit Pocahontas's grave in Gravesend, in Kent.

This year's is not the first observance of the Jamestown settlement, but it is trying to be the most balanced. The 250th anniversary in 1857 was a statewide affair in which the General Assembly boldly declared Jamestown the birthplace of the nation—overlooking the fact that St Augustine, Florida, a Spanish settlement, was established 42 years earlier. In 1907 Virginia, with federal backing, staged a huge but poorly-attended exposition that presented Jamestown as a white Christian beachhead in a land of godless red savages. It also featured the Great White Fleet, the armada President Theodore Roosevelt would dispatch on a global tour: a new, Americanised symbol of imperial ambition. Much the same notion launched Jamestown; but ambitious nation-building is a little out of fashion now.

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Lexington

George's tenets

May 3rd 2007
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Kevin Kallaugher

The former CIA director's book has been rightly slated. It is worth reading nonetheless

Get article background

WHEN someone described Herbert Morrison, a minister in Britain's 1945-51 Labour government, as his own worst enemy, his fellow-minister, Ernest Bevin, growled: “Not while I'm alive he ain't.” You might have thought that George Tenet, a former head of the CIA, is his own worst enemy for producing a whingethon of a book, “At the Centre of the Storm” (HarperCollins). But it turns out that there are legions of Bevins around to prove you wrong. The book has been thoroughly slammed and dunked since its publication on April 30th. And Mr Tenet's book tour is turning into a nightmare; every time he goes on television to complain that the administration mistreated and misquoted him, he looks more and more snivelling. It's time for him to cancel the tour and reconnect with his ancestral home in Greece.

Conservatives have gleefully leapt upon the book's errors. On the first page the great spy reports that he visited the West Wing on September 12th 2001, only to run into Richard Perle, a neocon grandee, who said, unbidden, that “Iraq has to pay a price for what happened yesterday. They bear responsibility.” The only problem is that Mr Perle was in France at the time. (Mr Tenet now says he may have got the date wrong.) Liberals have accused Mr Tenet of acting as George Bush's whore. Why didn't he resign when he realised that Dick Cheney and his allies were distorting the intelligence? His resignation would surely have derailed a war effort based on the idea that Saddam possessed WMD. And everyone—left, right and centre—has accused him of being both whiny and self-serving.

Mr Tenet blames everybody but himself for America's intelligence and foreign-policy mess. He claims he told Condoleezza Rice that he was convinced Osama bin Laden was planning a spectacular attack, and that America should go after him in his lair in Afghanistan, but that she did nothing. But why would he only tell Ms Rice when he talked to Mr Bush every morning?

The CIA failed to keep the FBI informed about the presence of known terrorists in America. Mr Tenet allowed Mr Cheney to twist intelligence in order to build a case for attacking Saddam. He sat behind Colin Powell during his ill-fated presentation to the United Nations in order to add credibility to his claims. And there's more: during the 1980s and early 1990s, first as a staffer on Capitol Hill and then at the National Security Council, he enabled the running-down of the CIA's human resources. He repeatedly discouraged Bill Clinton from trying to liquidate Mr bin Laden.

Mr Tenet couples all this blame-shifting with relentless complaints about how badly he was treated. Mr Cheney bullied him! Paul Wolfowitz criticised him! Bob Woodward lied about him! (In every interview, Mr

Tenet argues that he used the phrase “slam dunk” to describe how easy it would be to make the case for war, not the quality of the intelligence itself—as if anybody cares.) And all he got for his troubles was the Presidential Medal of Freedom!

Mr Tenet comes across as one of those familiar figures—a time-server who discovers he has backed the wrong horse and quickly sets about rewriting the record. He made his career as a Democrat—first as an intelligence specialist on Capitol Hill and then as Mr Clinton's CIA director. He kept his job in the new Republican world by telling his new masters what they wanted to hear. Michael Scheuer, the founding head of the CIA's bin Laden unit, depicts him as a regular Vicar of Bray in his dealings with Messrs Clinton and Bush—“denigrating good intelligence to suit the former's cowardly pacifism and accepting bad intelligence to please the latter's Wilsonian militarism”.

Good in parts

That said, Mr Tenet's book is worth reading for a couple of reasons. The first is that it provides vivid details of an administration in the grip of war fever. Douglas Feith, a Cheney crony in the Defence Department, told a military official on September 12th 2001 that the campaign against al-Qaeda should be directed at Baghdad. Paul Wolfowitz and “Scooter” Libby, other key cronies, were never content with CIA intelligence that clashed with their deeply held beliefs about the Saddam-al-Qaeda link (Mr Wolfowitz once wrote a blurb for a book arguing that Saddam was behind the 1993 World Trade Centre bombing).

Neocon-inspired freelancers repeatedly pop up. Michael Ledeen, who was deeply involved in the Iran-contra affair, appeared in Italy on a rogue mission and claimed to have evidence that Saddam had buried enriched uranium deep beneath a river bed. Ahmed Chalabi and a band of his followers were flown into Iraq without the CIA knowing. The Centcom command tried to stop their hare-brained military mission, but Mr Wolfowitz gave them the green light. Mr Tenet comments, in one of the better passages in the book, that it was often more difficult to guess what the Americans were up to than the Iraqis.

The second reason is that the book provides yet more evidence of the opportunity cost of the Iraq war. The CIA enjoyed some dramatic successes after September 11th, reversing years of decline. The agency helped to bring down the Taliban in one of the best-organised military campaigns in recent history (CIA operatives on horseback directed airpower to choice targets). It rolled up A.Q. Khan's nuclear-proliferation network. It killed or captured hundreds of al-Qaeda operatives. And it forged successful relations with intelligence services around the world.

But now the agency is in perhaps the worst funk in its history. Requests by agents to publish books are running at 100 a month. Congress has hopelessly botched intelligence reform. And the public has almost no confidence in intelligence reports. Mr Tenet's book would have had a better reception if he had spent less time justifying a phrase and more time explaining how to repair his damaged agency.

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Religion in Latin America

Lighting on new faiths or none

May 3rd 2007 | APARECIDA AND MEXICO CITY
From The Economist print edition

Reuters

In his first Latin American visit, Pope Benedict XVI will find a less divided church facing stronger rivals

Get article background

EVEN on an ordinary Sunday, the vast basilica of Nossa Senhora Aparecida is barely big enough to contain the worshippers who gather for morning mass. Votive candles, in a separate room, produce the heat of a bonfire. The “hall of promises” is stuffed with offerings to the Virgin, whose image was found nearby by three fishermen in 1717 and who has been performing miracles ever since: plastic limbs acknowledge healing, a model aeroplane a job gained with an airline.

Aparecida, in São Paulo state, is Brazil's version of Lourdes or Fátima. Pope Benedict XVI chose it as the site of the fifth conference of bishops from Latin America and the Caribbean, which is meant to set the course for 450m or so of the world's 1.1 billion Catholics. The inaugural mass on May 13th will crown Benedict's four-day trip to Brazil, his first long-haul journey since becoming pope two years ago. He will also canonise the country's first native-born saint and hold a stadium-sized “encounter with youth”.

Benedict's choice of Aparecida for the conference suggests a desire to guide Latin America's Catholics back to traditional spirituality after decades of strife between progressive and conservative wings of the church. “Our great mission is to reach people who belong to the church but have lost a sense of living in accordance with the faith,” says Raymundo Damasceno Assis, the archbishop of Aparecida.

Belief in God is as widespread in Brazil as in the United States, says Antônio Flávio Pierucci, a sociologist at the University of São Paulo, but religious practice is close to Europe's wan levels. The numbers saying they are of no religion is small but growing. Some in the Catholic church fear that it is losing its grip over public morality. Local governments in Buenos Aires and Mexico City have recently legalised gay unions; the latter legalised abortion last month. Brazil's health minister has called for a plebiscite on the issue.

The more familiar threat to Catholic hegemony in Latin America comes from Pentecostal Protestantism. Born in the United States, this began to spread south a century ago but it has taken off since the restoration of democracy in the 1980s. According to the World Christian Database, a statistical service based in Massachusetts, more than 80% of Latin Americans are still Catholic. But that figure has been falling swiftly.

In Brazil, the world's largest Catholic country, the church has lost adherents at a rate of 1% a year since

1991, mainly to Pentecostal churches. Fewer than three-quarters of Brazilians are now Catholics while 15% are Protestants (known locally as “evangelicals”). In Mexico, 7.3% were Protestants according to the 2000 census; the figure may be almost 20% today. In Guatemala, some 30% are Protestant.

Traditional varieties of Pentecostalism emphasise a strict moral code of personal behaviour, including teetotalism and marital fidelity. Newer groups have added a gospel of self-enrichment. They offer a customer-friendly faith, telling the poor and uprooted that Christ can improve their lives and that He can be approached through ecstasy rather than ritual.

The Pentecostals spread the word through television networks, CD releases and pastors who require only a pulpit and a Bible rather than an elaborate seminary education. In Brazil the ratio of Protestant pastors to worshippers is 18 times higher than that of priests to Catholics, according to a new study by the Fundação Getulio Vargas, a business school. The business model works: 44% of church donations in Brazil come from Pentecostals, and only 31% from far more numerous Catholics.

By all these methods, Pentecostal Protestantism has acquired a large presence among the poor and the lower-middle class. In Brazil Pentecostalism goes along with migration to both the agricultural frontier and the cities. Cidade Tiradentes, a poor neighbourhood in São Paulo, is 30% Protestant and 40% Catholic (and 22% “without religion”, triple the national average), notes Cesar Romero Jacob of Rio de Janeiro's Catholic University. Rich Jardim Paulista, in the city's centre, remains 83% Catholic. Pentecostalism is now making similar inroads in the poorer fringes of cities in the Andean countries, such as Lima.

While the Catholic church sticks to Spanish, in Mexico Protestants use indigenous languages to spread the word and have converted half of the country's indigenous people, claims Arturo Farela, who heads an organisation of Protestant churches. Much the same goes for the highlands of Guatemala.

Paradoxically, these are the constituencies that not long ago the Catholic church in Latin American made most effort to represent. At their second regional conference, held at Medellín, Colombia, in 1968, the bishops declared a “preferential option for the poor” and embraced many of the tenets of “liberation theology” (a kind of Christian socialism). This effort placed many priests in brave opposition to military dictatorships and spawned innumerable “base communities”, grassroots groups that tried to spread faith and social justice at the same time.

The influence of liberation theology proved to be greater in politics than in the pulpit. It contributed to the rise of Brazil's ruling Workers' Party, and ushered priests into Nicaragua's Sandinista government in the 1980s. The seeming marriage of Catholicism and Marxism alarmed Pope John Paul II, whose native Poland was rebelling against communism. He appointed more conservative bishops. As the Vatican's chief theologist, Cardinal Joseph Ratzinger—who became Pope Benedict in 2005—silenced liberation theologians such as Brazil's Leonardo Boff. Just as significantly, the base communities failed to win over the poor. “If your husband beats you, you can't wait for Brazil to become a Christian utopia,” points out Andrew Chesnut of the University of Houston.

The church turns to charisma

Nowadays the Catholic response to the Pentecostal challenge is to imitate it. The “Charismatic” movement, also an American import, rouses the faithful with spirit-filled worship, Christian pop music and slick television. Brazil's most famous churchman is no longer Mr Boff but Marcelo Rossi, a physical-education teacher turned priest who has been known to perform aerobics during his services.

“What we see today is the pentecostalisation of Latin American Christianity,” says Mr Chesnut. He estimates that 75-80% of Protestants in the region are Pentecostals and that in Brazil at least half of active Catholics have gravitated towards the Charismatic movement.

The Catholic church has strengths besides the ever-popular Virgin and saints. It remains the region's most respected institution, according to polls. Priestly vocations, after decades of decline, have been rising since the 1970s, although they lag population growth. Brazil is sending missionaries to the United States, Africa and Europe, a reversal of the historic flow.

Reuters

The Pentecostals prefer ecstasy to agony

That manpower is supplemented by more than 1m lay “catechists”, says Edward Cleary, a priest who teaches at Providence College in Rhode Island. Bishops are reviving parishes and the tradition of tithing. The Catholic church has not escaped paedophile scandals. But it has largely avoided the money scams that dog some Pentecostal churches. The Getulio Vargas study found that in Brazil defections from Catholic ranks have stopped. The number of Pentecostals continues to grow but at the expense of the irreligious.

The bishops' conference may be less disputatious than its predecessors. Democracy and the end of the cold war have drawn some of the sting from the arguments between conservatives and progressives. Dom Raymundo says the bishops will reaffirm the church's preference for the poor, but he insists that social change begins with the transformation of the individual believer. In the coming fights against abortion and the use of embryonic stem cells, the Latin church is probably more united than its North American counterpart. According to a recent poll, just 16% of Brazilians want to change a law that makes abortion illegal unless the mother has been raped or her life is endangered.

That does not put to rest nagging questions about the shape of a church with too few priests to sustain its traditional structure. Benedict will arrive in Brazil fresh from having censured Jon Sobrino, a liberation theologian in El Salvador, for over-emphasising Christ's humanity. The original draft of the conference guidelines was modified after pressure from the many in Latin America who take a less hierarchical view of the church and want a greater role for the laity. “For us the pope is father and pastor” rather than an “authority figure”, says Carlos Francisco Signorelli, who heads the National Council of Brazilian Laity. In Aparecida, Benedict may reveal how he sees himself.

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The Caribbean

Stumped

May 3rd 2007 | PORT OF SPAIN
From The Economist print edition

A disappointing cricket tournament of few fans and many unpaid bills

THE first cricket World Cup to be held in the Caribbean began in tragedy and ended in farce. Pakistan's cricket coach, Bob Woolmer, was murdered in his hotel room in Jamaica after his team surprisingly succumbed to Ireland, a cricketing minnow. The rain-disrupted final on April 28th, in which Australia defeated Sri Lanka, ended in confusion over the rules. Long before then it was clear that the seven-week tournament had failed to provide the region with much of a boost.

The West Indies Cricket Board hoped the cup, the region's largest-ever sports event, would provide a clutch of new stadiums. Local politicians dreamed of a feel-good year. Tourism officials counted on a flood of visitors.

The stadiums are there, but for most of the 51 matches they were nearly empty. Average attendance was below 9,000 per match. Even that was achieved only by discounting: Grenada pulled crowds by charging $10 for $75 seats, and Guyana organised give-aways for schoolchildren.

Locals balked at high prices and, initially, at imported control-freakery that dampened the Caribbean spirit. Crowd regulations were eventually relaxed. By the closing stages, it was back to bring-your-own food, blowing conch shells and a sense of fun. More locals turned up.

Tournament organisers hoped for 100,000 visitors from outside the Caribbean; British consultants upped that figure to 225,000. But the best guess is that no more than 35,000 came. Hotels had empty beds. Families in Guyana who took out loans to provide bed-and-breakfast rooms may struggle to repay them.

This aggravated an already disappointing winter season for Caribbean tourism, hurt by new rules in the United States that require returning residents to hold passports. In March, when Jamaica held its first-round matches, its tourist arrivals were 3% down on last year.

Building stadiums and other facilities cost $250m. Much of this was covered by grants from China and Taiwan. But some countries are left with debts, for which they are blaming the Cup's organisers, the International Cricket Council (ICC). Jamaica spent $120m on preparing for the tournament, and wants a bigger slice of the ICC's revenues.

The ICC argues that upsets on the pitch cut visitor numbers. Several thousand visas were issued to Indians and Pakistanis, but there was a rash of cancelled bookings after their teams were knocked out. More predictably, England fell before the semi-finals, as did the West Indies.

Public debt in most of the countries involved was already high, averaging over 100% of GDP. The new stadiums may be useful for future sports events, concerts or religious rallies. But that will take canny marketing. Some of the islands' economies may face a sticky wicket.

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Peru

A change of mind on coca

May 3rd 2007 | LIMA
From The Economist print edition

Hold the salad dressing, call in the bombers

Get article background

DURING Alan García's disastrous first term as Peru's president in the 1980s, his country suffered hyperinflation, a murderous guerrilla insurgency and soaring drug trafficking. Elected again last year, he seems determined to avoid history repeating itself. He has kept his predecessor's responsible economic policies, which have ushered in booming growth. And Mr García says he is preparing to crack down on drugs.

Having fallen in the 1990s, output of coca, the raw material for cocaine, is rising sharply. In 2005, according to the United Nations, Peru had 48,000 hectares of coca. That figure may have risen to 60,000, a fairly close second to Colombia. In recent years, Peru's coca growers have got together in unions, as they have long done in Bolivia. Mr García was at first conciliatory to them. In December, he suggested that coca leaves might be used for salad, saying that a drizzle of olive oil and balsamic vinegar would mask their bitter taste.

Now he seems to have changed tack. Since mid-March, there have been violent protests against the government's coca-eradication programme in the main growing areas, to the east of the Andes. Last month sniper fire killed an eradicator and injured five others.

Rather than Bolivian-style unions, what really worries the government is the prospect of a Colombian-style marriage between drug-trafficking and guerrillas. The Shining Path, the Maoist group which inflicted terror on Peru in the 1980s before being crushed, shows signs of revival. In a report published on April 30th, the United States claimed that the group may now have “hundreds of armed combatants” and that it is “entwined” with drug trafficking.

That estimate may be an exaggeration. But Mr García vows to go ahead with coca eradication, if necessary by force. He has talked of bombing airstrips used by traffickers and pits where coca is processed. Last month Congress agreed to give the government powers to legislate by decree on security issues. This tough line will do Mr García no harm in his efforts to persuade the United States' Congress to approve a free-trade agreement with Peru. It is also in tune with public opinion at home. Whether it has any effect on the drug trade, and whether it hurts rather than helps the Shining Path, remains to be seen.

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Canada

Greener

May 3rd 2007 | OTTAWA
From The Economist print edition

Trying again on emissions policy

Get article background

WHEN the world's most famous environmentalist denounces your new green plan as a “complete and total fraud” you might at least consider a rethink. Not John Baird, Canada's combative minister of the environment. Bristling at criticism from Al Gore, who happened to be in Canada when the Conservative government's climate-change plan was announced on April 26th, Mr Baird shot back that his approach was “vastly tougher” than anything the United States had done when Mr Gore was its vice-president.

The feisty riposte was typical of Mr Baird, who was handed the tricky environment file in January. His predecessor was sacked after she came up with a plan for minimal emissions cuts far in the future. That satisfied global-warming sceptics in the ruling party but failed to address rising public concern over the environment and climate change.

Mr Baird's attempt is a bit more robust. He announced mandatory targets to reduce industrial emissions of greenhouse gases and air pollutants; the setting up of an emissions-trading system; and a slew of regulations on energy use covering everything from skidoos to home appliances. After climbing relentlessly to reach 781 megatonnes last year, Canada's emissions of gases linked to climate change will start to fall within three years, he promised. He warned Canadians they could pay as much as C$8 billion a year ($7.1 billion) in increased costs.

Environmentalists and opposition parties complain that even if the new measures succeed in reducing greenhouse-gas emissions by 20% by 2020, Canada will still not meet its Kyoto target of 563 megatonnes by 2012. This is hardly a surprise. The government has been saying for months that the lack of action under previous Liberal governments, which ruled for almost 13 years until February 2006, made the goal unattainable.

Will Mr Baird's plan make a difference? His critics point out that his targets are for energy intensity. Total emissions may rise even as they fall per unit of output. They note several gaps in the programme where measures are still to be worked out, and claim that proposed emissions reductions by local governments are over-optimistic. It was the use of energy-intensity targets that led Mr Gore to complain of fraud.

Pollsters say that, however hard they try, the Conservatives are unlikely to persuade voters that they have become ardent greens. The party was slow to recognise that Canadians are becoming greener, in part because its base is in energy-rich Alberta. But Mr Baird may have done enough to neutralise the environment as an issue at the next election, expected some time over the coming year.

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Japan's foreign policy

Abe blows Japan's trumpet, cautiously

May 3rd 2007 | TOKYO
From The Economist print edition

AP

Shinzo Abe wants a more assertive foreign policy but Japan's energy dependence is forcing it to be more pragmatic

Get article background

SINCE becoming prime minister last September, Shinzo Abe has done plenty of travelling. Straight off, he made a fence-mending trip to China and South Korea, with whom Japan's relations had deteriorated under his predecessor, Junichiro Koizumi. In January he visited Europe, chiefly to emphasise that Japan was a staunch democratic partner on NATO's eastern flank. This week, shortly after visiting Washington for talks with George Bush, he toured the Middle East, the fount of more than three-quarters of Japan's oil.

Mr Abe's men say his travels paint an emerging vision: while the alliance with America remains the cornerstone of Japan's security policy, Mr Abe is also pushing once-passive Japan to pursue its own, more muscular course. For in Asia, says an official, Japan is playing “a huge great game” in which it must compete with a rising China and a newly confident Russia for resources, power and prestige.

His first trip as prime minister to meet Mr Bush was overshadowed by Mr Abe's comments, in March, questioning the Japanese army's wartime role in forcing women into military brothels (see article). Howls of international protest forced him into a sort-of apology. He repeated it to Mr Bush, who “accepted” it—as if the president spoke for the victims. This choreographed *pas de deux* prevented the issue overwhelming all others.

Mr Bush warmly approves of Mr Abe's fence-mending with neighbours who had been antagonised by Mr Koizumi's provocative visits to Yasukuni, Tokyo's war shrine. America needs Chinese co-operation, even leadership, in dealing with a North Korea that went nuclear last October. And in the longer run, it wants to tie China in as a “responsible stakeholder” of the international system. Neither goal is served if Japan riles its neighbours with high-handedness over its wartime past.

Mr Abe was welcomed, too, for insisting that Japan should play an ever more energetic role in the alliance. After he left Washington last weekend, Japan's foreign minister, Taro Aso, and the defence minister, Fumio Kyuma, sat down with their American counterparts, Condoleezza Rice and Robert Gates. With North Korea's missiles in mind, the Americans emphasised their country's commitment to defend Japan against conventional and nuclear threats—in effect reaffirming that Japan is protected by America's nuclear umbrella.

America also promised to bring forward the deployment by Japan of two American-made anti-ballistic missile systems. And with a view as much towards China's military rise as the North Korean threat, America even hinted it might sell Japan the advanced F-22 Raptor stealth fighter (though it later backtracked).

Japan is keen to play a greater part in its own defence, including through increased military co-operation. However, this has been hampered by the Japanese government's interpretation of the constitution. In particular, collective self-defence has been ruled out of bounds. As things stand, for instance, Japan may not shoot down a North Korean missile headed for the United States, or come to the aid of an American ship under attack. However, before his American visit Mr Abe's government announced a review of the interpretation.

A right to collective self-defence underpins Mr Abe's broader ambition, which is to ensure that Japan can play a bigger role in international security. As an example of the constraints, Japan's 600 ground troops deployed in Iraq until last year were unable to use force. On May 3rd, the Japanese constitution's 60th anniversary, Mr Abe proposed rewriting it—including perhaps the clause declaring Japan pacifist.

Japan's great game is dressed up in the values of humanitarianism, democracy and the rule of law. It seeks closer ties with democratic India and recently formalised a security alliance of sorts, only Japan's second, with Australia. Mr Aso speaks of an “arc of freedom and prosperity” from Japan, swinging through India via moderate Middle Eastern states into Europe. China and Russia, unsurprisingly, see this as a bid to contain them.

However, Mr Abe's trip to the Gulf this week illustrated how pragmatism is lurking behind the façade of Japan's talk of spreading democracy. While China is signing energy deals around the world, cosying up to even the nastiest regimes, Japan's attempts to secure its long-term oil supplies have gone awry. Last autumn the Iranians forced it to cut sharply its stake in the Azadegan oilfield in Iran, in which it had invested much time and money. Shortly after, Japanese stakes in the huge Sakhalin-2 gas project were slashed when the Russian state muscled in. Japanese concessions in Saudi Arabia and Kuwait have also been lost.

So this week Mr Abe sought to restore his country's supply lines. A deal was announced that gives Saudi Arabia oil-storage facilities on Japan's southern island of Okinawa in return for preferential Japanese access to them in emergencies. The Japan Bank for International Co-operation announced a $1 billion loan to Abu Dhabi as a downpayment on long-term oil contracts. Mr Abe did not upset his hosts with any unwelcome talk about democracy but he did propose a more active, “multi-layered” relationship with the region, for example offering Japan as an honest broker in the Arab-Israeli conflict. His mixture of idealism and pragmatism, added to a more confident style at home, seems to be doing him some good. For the first time since he came to office, the *Nikkei* daily reports, the prime minister's hitherto dismal approval ratings have risen.

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Japan's wartime history

Uncomfortable truths

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More of the facts will out

Get article background

IN HISTORY, as in politics, it is wise to choose your battles with care. Remarks in March by Japan's prime minister, Shinzo Abe, that appeared to deny the role of Japan's imperial army in coercing between 50,000 and 200,000 women to work in wartime brothels, or "comfort stations", across East Asia have landed him in a minefield of criticism from victims and governments, in Asia and beyond. By denying there was coercion by the army—except in the broadest (and mildest) sense—he has dismayed Japan's allies.

Most of the women herded into the brothels were from Korea, China, Taiwan, the Philippines, Indonesia and Myanmar (then Burma), though they included others too. Support has been growing in America for a House of Representatives resolution calling for a profound apology and proper compensation. Japan's own deliberately unofficial fund, established in 1995, had few takers and closed its coffers in March.

AFP

A victim seeks justice

On April 27th, while Mr Abe was in Washington, DC, trying to explain himself, at home the country's highest court tossed out two sets of compensation claims—for sexual slavery and for forced labour—arguing that post-war agreements with Japan's neighbours ruled out such claims. But the court also put on record that, in these cases, Japanese soldiers had indeed abducted two teenage Chinese girls and made them work as sex slaves.

Unlike some right-wingers in his own party, Mr Abe says he sticks by a 1993 admission from the then chief cabinet secretary, Yohei Kono, that the imperial army "was, directly or indirectly, involved" in setting up and managing wartime brothels. The statement also admitted that "in many cases" women were recruited through deception or coercion and that "administrative/military personnel directly took part in the recruitments."

Mr Abe, though, has called testimony that soldiers went on a "hunt" for victims a "complete fabrication"—even as some of the women were recounting their experiences. There was "no evidence", he said, that women were coerced in the narrow and violent sense into sexual servitude.

Yet a report by America's Congressional Research Service lists evidence from other countries that Japanese military personnel not only set up and ran the brothels but also at times forcibly abducted women and girls to work in them. After the war, a Dutch war-crimes tribunal convicted a number of Japanese army officers of such crimes. Meanwhile a 1994 Dutch government report looking into the fate of a limited number of women and girls of European (mostly Dutch) origin in what is now Indonesia found that 65 were "most certainly" forced into prostitution. Japan's government received this report years ago and thus cannot claim ignorance of it.

The worst and most systematic military abuses, the report concludes, took place from mid-1943 to mid-1944. They ended when a colonel from the ministry of war in Tokyo heard of them while visiting internment camps on Java. That's the thing about history: it has its bad and its more honourable parts. Does Mr Abe have the confidence to take a proper look?

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Australia's opposition

Rudd's rise

May 3rd 2007 | SYDNEY
From The Economist print edition

Labor's leader tops the polls—for now

Get article background

WHEN Kevin Rudd was a student, 30 years ago, he contacted Gough Whitlam, a former Labor Party prime minister, asking for tips on making a career in politics. Mr Whitlam advised him to do three things: join one of Australia's two main political parties, get a university degree and master a foreign language. Mr Rudd did all three (he is a fluent Mandarin speaker). Now, a few months away from a general election, opinion polls have him in a commanding position to become prime minister himself.

Since Mr Rudd took over the opposition Labor leadership in December, the party's bid to break the 11-year rule of John Howard's conservative coalition has looked ever more achievable. A poll on May 1st showed Labor ahead by 14 percentage points after preference votes were distributed. Labor's stock had already started rising before he took over but the difference Mr Rudd has made, after a succession of lacklustre predecessors, is to challenge Mr Howard's dominance as the country's most popular leader. The same poll gave Mr Rudd a seven-point lead as preferred prime minister.

On April 27th Mr Rudd used Labor's policymaking conference in Sydney to stamp his authority on the party. He portrayed himself, at 49, as the face of the future, with fresh policies on education, climate change and nationwide broadband access, against Mr Howard, at 67, as someone who doesn't believe in any idea that “didn't appear on black-and-white television”. So far, voters like what they see.

A former diplomat and China consultant, Mr Rudd comes from outside the old Labor mould. His party, though, is still beholden to the trade unions that formed its original power base almost a century ago. Its problem is that Australia as a whole no longer reflects this. About one-fifth of all workers now belong to unions, even fewer in the private sector.

So Mr Rudd is trying to distance himself from the party's old image. Business leaders flocked as observers to the Sydney conference to hear him ring their bells. He pledged to “back the business community wherever we can” and called small businesses the “backbone of the Australian economy”. Yet business leaders are fuming over his plan to ditch Mr Howard's workplace reforms, removing the freedom of workers and bosses to agree on individual contracts and returning to centralised wage-bargaining. Mr Rudd's attempt to pose as business's new best friend while appeasing the union barons by reviving inflexible and outdated labour policies may prove a difficult trick to sustain as the election campaign heats up.

Elsewhere, Mr Rudd is on firmer ground. He has started hand-picking candidates for key constituencies, bypassing Labor's tortuous selection process, which invariably rewarded apparatchiks. Maxine McKew, a popular former television journalist, will challenge Mr Howard in his constituency in Sydney, which a recent boundary change has rendered less safe for the prime minister. Mr Rudd has also started doing things that make him look prime ministerial. In March he called business and science leaders to Canberra for a conference on climate change. On April 20th he addressed the Brookings Institution, a Washington think-tank, on how Australia and America should conduct their relations with China. In June he will lead a delegation of business bosses, scientists and politicians to China to discuss global warming.

Things have gone Mr Rudd's way so far, but the final months before the election (expected in October or November) will be tougher. On May 8th Mr Howard's government will present its last budget before the election. Buoyed by the lowest unemployment in 30 years, low inflation and a big surplus, the government is well placed to offer tax cuts and other goodies. Mr Howard has seen off four previous Labor leaders and won the past four elections. He is not ready to give up yet. Australia's election battle has only just begun.

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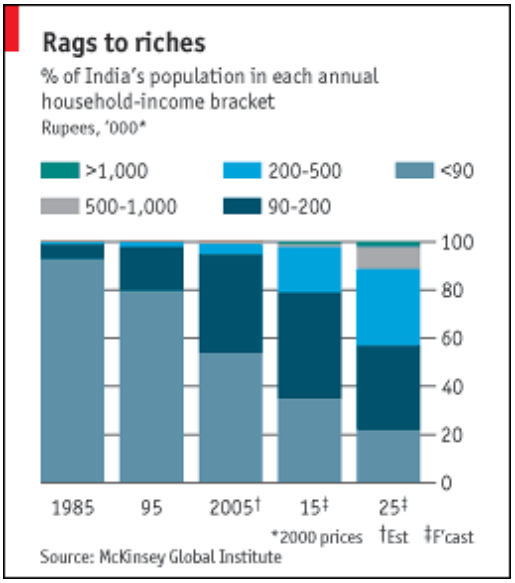
India's consumers

The coming boom

May 3rd 2007 | DELHI
From The Economist print edition

India's consumption could leapfrog Germany's in two decades

Get article background



IN CASE any potential investor has missed India's run of 8% growth and billion-person potential, the consultants at McKinsey have provided a useful jab in the ribs. In a report on India's consumer market published on May 3rd, they have added detail to the probable economic explosion ahead. Assuming annual growth averages 7.3% over two decades—a reasonable bet—India may overtake Germany as the world's fifth-biggest consumer market by 2025. It predicts the middle class will expand from 50m to 583m, leaving only a fifth of Indians in the bottom household-income bracket, earning less than 90,000 rupees ($2,200) a year (see chart).

All sorts of businesses will profit. But the report, "The Bird of Gold: the Rise of India's Consumer Market", suggests where the opportunities will be greatest. First, among the relatively rich. For now, the poor and lower-middle class together account for 75% of total spending. By 2025, McKinsey predicts consumption will be dominated by the middle class, to the tune of 59%, and the rich, accounting for 20%. Second, in the cities. It expects consumption in urban areas to rise from 43% of the total now to 62% by 2025—even though most Indians will still be rural.

Third, as spending on discretionary items increases, some markets will balloon faster than others. While the share of Indians' spending devoted to food, drink and tobacco will fall from 42% to 25% by 2025, health-care spending will rise from 4% to 13%.

If McKinsey's growth prediction looks reasonable, others look optimistic. For example, the report notes that spending on education and infrastructure will have to increase to support its analysis. Yet it is still hard to imagine so many hundreds of millions of Indians being educated to a standard befitting middle-income status. Transforming the thousands of rotten schools might prove impossible, even if sufficient money can be found. Given India's relatively weak fiscal position, it perhaps cannot be.

If the golden bird is to be a phoenix, and not a chicken, predictions such as these should spur the government to act on such problems. Suman Bery, director of the National Council of Applied Economic Research, a think-tank, lends a word of caution: "We've had super-fast growth only for the last four years. We can still throw it away."

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Sri Lanka

Tigers with wings

May 3rd 2007 | COLOMBO
From The Economist print edition

The Tamil Tigers' fledgling air force is puny but menacing

Get article background

DARING air raids by the Tamil Tigers' fledgling air force on targets around Colombo, on March 26th and April 29th, caused little physical damage. However, their effect on morale in the Sri Lankan capital was considerable. The Sri Lankan defence forces have fighter jets, helicopter gunships and anti-aircraft batteries. But all their military might failed to stop the Tigers' puny, propeller-driven trainer aircraft from dropping their home-made bombs and escaping.

The most recent air raid triggered a blackout in the capital, causing panic. An anti-aircraft gunner mistakenly targeted a commercial jet, prompting some airlines to suspend services to the country. The Tigers attacked under cover of darkness, knowing the government forces lacked night-fighting gear. The government of President Mahinda Rajapakse is now frantically seeking better aircraft and air-defence equipment to meet the new threat from the Tamil separatists.

The first attack, in March, hit the military airbase alongside the international airport. The latest raid struck two oil facilities around the capital, causing a small fire. The Tigers' military spokesman, Rasaiah Ilanthirayan, promised further air attacks so long as government forces continued to bombard Tamil areas in the country's north and east.

Sri Lanka has known for two years that the Tigers were building a rudimentary air arm. But it thought it had disabled it, through its incessant aerial bombing. More than any risk of serious damage or casualties, the worry now is that the Tigers' ability to mount surprise air attacks could disrupt the country's only international airport, scare away tourists and discourage investment.

With over 500,000 arrivals a year, yielding an income of $410 million, tourism was Sri Lanka's third-biggest dollar earner last year. But immediately after the April 29th air raid, Cathay Pacific suspended its flights (having only recently restored them following March's attack), while Singapore Airlines switched its night flights to the daytime. Australia, like some European countries, advised its nationals to reconsider any plans to visit the country. Amid renewed fighting between the government and Tigers, tourist arrivals in March were down by more than a third compared with a year earlier.

With the air raids exposing serious weaknesses in the country's defences, the government is likely to increase this year's military spending from the expected 139 billion rupees ($1.25 billion) to 200 billion rupees, predicts Harry Gunatilleke, a former air-force commander. The government can ill afford this. Despite annual economic growth of 7.5%, its budget deficit is 8.4% of GDP, reckons Fitch, a credit-rating agency, and government debt is an alarming 93% of GDP. Sri Lankans are already suffering: inflation is a crushing 17%, while real wages have fallen in the private sector—by 10% in agriculture and 12% in service industries—over the past year, says Harsha de Silva, an economist.

The 20-year war between the Tigers and government forces has claimed more than 65,000 lives. Hundreds of thousands of people have been internally displaced or have left the country. The government talks of the war being over in three years. But there is no end in sight right now. On April 30th Mr Rajapakse announced a proposal for devolution for Tamil-majority areas. It fell short of the unified and autonomous (or even independent) Tamil province in the country's north and east that the Tigers demand, so they rejected it. Even moderate Tamils, including some allied to Mr Rajapakse, said the president's proposal was not worth discussing.

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Thailand's Buddhists

Monks on the march

May 3rd 2007 | BANGKOK
From The Economist print edition

A most un-Buddhist demand for worldly recognition

Get article background

MANY objections are being raised to the proposed new constitution that a panel picked by Thailand's military junta has drafted. Some Thais are angry that it proposes replacing the elected Senate with an appointed one and cutting the number of parliamentarians. But the loudest objections so far have come from Buddhist nationalists, who are demanding that the charter give explicit recognition to Buddhism as Thailand's official religion.

AP

Peace-loving but militant

Some 95% of Thailand's 64m people are followers of the Theravada school of Buddhism practised in Sri Lanka, Myanmar and Cambodia. Many of the rest are Muslims, concentrated in the southern provinces bordering Malaysia. In recent months, a group of Buddhist monks has tried to persuade the constitution-drafters to strengthen the wording of the previous charter, which merely required the government to "patronise and protect Buddhism and other religions". Having failed in this, they are now seeking to persuade their co-religionists that the faith is under threat and needs greater state protection.

On April 25th, hundreds of orange-robed monks led by nine elephants, a traditional national symbol, marched across Bangkok. Outside parliament, they rallied overnight with other followers (minus the elephants) to support a constitutional clause that, as one monk put it, would "save Buddhism from destruction". The group dispersed the next day, but vowed to return if their call was not heeded.

The turnout was under 4,000, well below the huge crowds the organisers had promised. But it still rattled a jittery junta that sees any big rally as a threat to its existence. General Sonthi Boonyaratglin, the army chief (who is a Muslim), said he would not stand in the way of the proposal, a position echoed by the prime minister, General Surayud Chulanont. Their tacit support was a turnaround from the curt dismissal of the idea by the head of the drafting committee, Prasong Soonsiri, a retired spymaster. It may reflect a tactical need to defuse a campaign that is being supported by loyalists of Thaksin Shinawatra, the prime minister they ousted.

One of General Surayud's security advisers has given warning that favouring Buddhism could further inflame the separatist insurgency in the Muslim-dominated south. Already, more than 2,000 Muslims and Buddhists have died and tens of thousands of Buddhists have fled their homes since the violence revived in 2004. Sectarian tensions have risen after recent attacks on mosques, some of which may have been in revenge for killings of Buddhists. Proponents of the state-religion clause argue, however, that the persecution of their co-religionists in the south is precisely why their campaign to safeguard the faith is

vital.

Some Buddhist intellectuals disagree with both the campaign's ends and its means, which do not exactly reflect the mantra of non-attachment to worldly affairs. If the faith is losing its way in modern Thailand, they say, the fault lies with a conservative clergy that has failed to update its teachings and expel misbehaving monks. Writing Buddhism into the constitution will not stop monks selling “magic” amulets or lottery predictions, for example.

Even those seeking official status concede that it is unlikely to revitalise Buddhism overnight. That is one reason why a similar campaign flopped when the last charter was written in 1997, and probably will again, says James Klein of the Asia Foundation, a think-tank in Bangkok.

Nationalism and religion can be a toxic brew. Mettanando Bhikkhu, an Oxford-educated monk, worries that Thailand could go the way of war-torn Sri Lanka, whose hawkish clergy block any concessions to the Tamil rebels. In the 1970s, when Thailand was seen as the next domino to fall in South-East Asia, a prominent right-wing monk said it was fine to kill communists. As Thailand's southern insurgency worsens, the risk is that its Buddhists may again forget one of their religion's five precepts: that all life is sacred.

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Israel

A prime minister on the edge

May 3rd 2007 | JERUSALEM
From The Economist print edition

Peter Schrank

Ehud Olmert seems to have ridden out the storm caused by a damning report on last summer's war in Lebanon—for now

Get article background

A SCATHING official report on the first few days of Israel's war in Lebanon last summer has set off a game of brinkmanship for power. The commission, which Ehud Olmert, the prime minister, himself appointed to investigate the war (but without granting it the power to make binding recommendations), criticised the whole government and military establishment. But Eliyahu Winograd, the judge who headed the commission, reserved his strongest censure for Mr Olmert, Amir Peretz, the defence minister, and Dan Halutz, the then head of the army, for going to war immediately after the Islamist militants of Hizbullah kidnapped two Israeli soldiers. There had been inadequate preparation, bad planning and no clear objectives.

The report revealed little that had not already come out in the Israeli press. Its shock value was enhanced at least partly by a campaign by opposition politicians to lower expectations about the report, so that they could criticise the commission if it was indeed tepid but strengthen the blow to the government if it was harsh.

That strategy had some effect. Rebels in Mr Olmert's centrist Kadima party told him to resign. Mr Peretz, whose Labour party, the second force in the coalition, is likely to get rid of him anyway in a leadership election on May 28th, almost decided to quit early. And Kadima's Tsipi Livni, the foreign minister, who largely escaped the commission's criticism because she had tried to cut the war short, told Mr Olmert to his face that he should step down.

Yet this daring move was also a sign of Ms Livni's weakness. She is popular due to a reputation for honesty, rare at the top of Israeli politics these days, and has long been spoken of as a possible successor to Mr Olmert. But either she could not enlist enough Kadima members to mount a challenge or she did not try to do so. She said she would stand only when Kadima held its own primaries. And by not quitting herself, daring him to fire her, she gave Mr Olmert back the initiative. As *The Economist* went to press, he seemed to have decided to let her stew in her job for the time being, and the rebellion—save for a couple of members—had been put on ice.

So Mr Olmert, a consummate politician if not warmaker, is more or less back in control, and will stay so unless a protest rally scheduled for the evening of May 3rd turns out to be unusually massive. Ms Livni is pressing him to involve her more in security-related issues, after being shut out during the war. But

having agreed to stay on, she will have to grin and bear the sniping from Mr Olmert's allies, who are already trying to paint her as a coward.

Mr Olmert, meanwhile, may negotiate a graceful exit from the party after an agreed period—perhaps after the Winograd commission's final report in the summer, which will examine the rest of the war and may actually call for resignations. By that point, Ms Livni may find herself competing with other Kadima heavyweights for the leadership.

Yet things may shift again before that. Though the Labour primary is an internal vote among party members, from whom Mr Peretz has more support than among the public, most bets are on Ehud Barak, a former prime minister and army chief of staff, or Ami Ayalon, an ex-admiral and domestic intelligence chief. Mr Ayalon has already said he will pull Labour out of the coalition if he wins, almost certainly forcing an election. If, on the other hand, Mr Barak gets in, his dilemma will be whether to stay on as defence minister and share the flak with Mr Olmert, or risk an election race against the right-wing Likud party.

It's quite a gamble

That is a hard one to call. The Likud, as the only big party untainted by the war, has a strong lead in the polls. Labour has huge debts, making it hard to assemble a campaign fund. But victory in such testing times would probably depend more on a persuasive candidate than a slick campaign. The Likud's leader, Binyamin Netanyahu, best-remembered as a hard-nosed finance minister in the previous government and as a bellicose but ineffective prime minister in the late 1990s, may have trouble convincing Israelis that he is the man to rebuild their country's military reputation and find a way out of its diplomatic stalemate with the Palestinians.

Mr Barak, on the other hand, is remembered for leading Israel into the stalemate after failing, by a whisker, to strike a deal with the Palestinians in 2000; the second *intifada* then started on his watch. Kadima is split, has no real political base or ideology, and corruption scandals threaten to engulf Mr Olmert and his finance minister. Yet if it can close ranks around a strong candidate, those who have been prophesying its imminent collapse for a while may be disappointed.

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Israel and its neighbours

When's the next war?

May 3rd 2007 | JERUSALEM
From The Economist print edition

The risks of a new conflagration

IN THE brouhaha over last summer's war against the Islamist guerrillas of Hizbullah in Lebanon, the campaign in the Gaza Strip that Israel had begun two weeks earlier in response to the kidnap of a soldier, and which killed over 400 Palestinians, has nearly been forgotten. But it was not long after the end of both clashes that some Israeli officials began prophesying a new one.

Such warnings took on more urgency last week after the armed wing of Hamas, the Islamist movement that dominates the Palestinian Authority, launched a barrage of home-made rockets (known as Qassams) and mortars from Gaza at Israel. For nearly six months, Hamas has largely avoided firing the rockets and Israel has largely abstained from reacting, though it still goes after militants in the West Bank. Hamas, whose armed wing is anyway run separately, from Damascus, said its barrage was only responding to the killing of several Palestinians the previous weekend. As usual, it caused no casualties. Yet a rare direct hit—or, for that matter, a suicide-bomber in the heart of Israel or another kidnap—may leave the government, as the army chief of staff, Gabi Ashkenazi, said this week, with “no choice” but to hit back.

However, short of a full-scale military reinvasion similar to “Operation Defensive Shield” in the West Bank in 2002, it is hard to see what Israel could do. A senior security man notes that Hamas forces in the West Bank never recovered from that blow, but says “there has never been great enthusiasm” for such an attack on Gaza, not least because it would mean leaving the army there to police the strip once again—the last thing Israel wants after pulling its troops out in 2005. “There's no military solution to the Qassams,” says a former general.

Yet the Qassams that may provoke Israeli politicians to order a big response are not what rattles their security chiefs. The crude rockets, says Anat Kurz, of the Institute of National Security Studies, are more “a statement of 'we are here' in the internal Palestinian power struggle between competing militias than serious 'resistance' to Israel”. The real threat is that Hamas, Hizbullah and its helper, Syria, are all stockpiling heavier weapons but keeping what Israel's security men call “a deceptive quiet”.

UN forces supervising the present ceasefire in Lebanon have failed to prevent fresh Iranian weapons reaching Hizbullah via Syria. Iran, Israeli officials have begun to say publicly, is smuggling arms and advisers to the militants in Gaza via Egypt; Hamas spokesmen say they already have longer-range rockets than the standard Qassams. So all sides have an interest in keeping things quiet—for now. Yet there is always a risk that Gaza may blow up again, perhaps after a lethal Qassam strike, drawing Hizbullah in again too. And if war breaks out again and if this week's Winograd report on the war in Lebanon is right, Israeli politicians look barely capable of handling it.

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Saudi Arabia and al-Qaeda

The bad guys keep on coming

May 3rd 2007 | CAIRO
From The Economist print edition

The capture of 172 terrorist suspects suggests that many more are at large

Get article background

THE global terrorist franchise of al-Qaeda has scored pretty well recently. Its branch in Iraq is helping to smash up that tormented country. An Algerian affiliate, proclaiming a new front in north Africa, recently set off a clutch of bombs in Algiers, killing 33 people and shattering a period of relative calm. Al-Qaeda's Taliban allies are preventing the pro-Western government from controlling all of Afghanistan. Plainly the network has little trouble gaining recruits, with cells forming in more countries now than five years ago.

Yet recently it has taken some big knocks. This week the Iraqi authorities said the group's leader in Iraq, Abu Hamza al-Muhajir, an Egyptian also known as Abu Ayub al-Masri, had been killed. If confirmed, it would be al-Qaeda's second such loss since June. More significantly, his death was said to have been at the hands of rival Sunni insurgent groups who may disapprove of al-Qaeda's methods, such as suicide-bombings in markets. Later this week, Iraq's interior ministry said American and Iraqi forces had killed Abu Omar al-Baghdadi, leader of the Islamic State of Iraq, a wishful entity declared by a coalition of extremist insurgent groups headed by al-Qaeda in Iraq, which pledges allegiance to Osama bin Laden.

AP

Guardians of the holiest place

American forces, meanwhile, claimed the capture of a possibly bigger fish, Abdul Hadi al-Iraqi, an Iraqi who had spent 15 years with al-Qaeda in Afghanistan and was apparently trying to return home. And last month in Morocco, police forestalled a bloodbath when three bombers blew themselves up to avoid capture. Algerian security forces recently said they had killed al-Qaeda's local deputy head.

But last week's announcement by the Saudi authorities was the most dramatic. Seven separate al-Qaeda cells have been busted in recent months, they said, netting no fewer than 172 suspected operatives as well as big stashes of weapons and $5m-plus in cash. The sweep was especially striking since the kingdom remains a prime source of both recruitment and finance, particularly for al-Qaeda in Iraq.

After a spate of bombings in 2003 and 2004 jolted many Saudis out of complacency, strong police action reduced the rate of terrorism. A state-sponsored ideological campaign, promoted by formerly radical preachers, appeared to mute public expressions of support for jihadism. Police also say they convinced some 1,000 extremist detainees to repent through religious re-education and financial incentives. Some former radicals, including 65 released from American custody in Guantánamo Bay, have benefited from $30m in state aid, including monthly stipends, cars, dowry payments and wedding presents.

But many other hardened radicals are unlikely to heed such blandishments. For one thing, they can simply move abroad; many would-be jihadists go to Iraq. A typical example was a 28-year-old known as Abu Suleiman Oteibi, who preached in a mosque in a smart northern district of Riyadh, the Saudi capital, until he disappeared in 2005. He resurfaced this year in an internet video, describing himself as chief judge of the Islamic State of Iraq.

What the Saudi authorities fear is the return of such people, radicalised by war, trained in terrorism and regarded as heroes by many in the kingdom's large pool of jobless, disgruntled youths. “Support for al-Qaeda is actually stronger than ever,” says a Saudi lawyer, bemoaning the continuing ultra-conservatism of Saudi education.

The few details released by the Saudis about the latest crackdown appear to confirm some of those suspicions. Several of the latest detainees had military experience in Iraq; others were said to have sought pilot training. The suspects include immigrants from Yemen, Nigeria, Mauritania, Syria and elsewhere. “They had the personnel, the money, the arms,” said the interior ministry. “Almost all the elements for terror attacks were complete except for setting the zero hour.”

If the Saudi account is accurate, the capture of such a large group clearly marks a big success. But the kingdom's rulers are still taking no chances. Two days after the announcement of their capture, the government banned the sale of concentrated fertiliser, a favourite component of home-made terrorist bombs.

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South Africa

Why land reform is so tricky

May 3rd 2007 | OUDTSHOORN
From The Economist print edition

Plenty of farms are for sale, but blacks still find it hard to buy

Get article background

TWELVE years ago, Barry Levinrad, who works for the Department of Land Affairs in George, on South Africa's scenic Garden Route east of Cape Town, used to receive death threats. Today, he says, life is a lot more peaceful: very few people now disagree that land ownership needs to be reformed. At the same time, it is widely agreed that the chaotic land transfers in neighbouring Zimbabwe should be avoided. But this change in attitude has not been matched by much progress on the ground. There, frustration among poor rural people is mounting.

When the African National Congress (ANC) took power in 1994, with the black majority's overwhelming backing, whites owned about 87% of South Africa's farmland. The new government set a target for at least 30% of it to be transferred to blacks by 2014. More than a decade on, only 4% has changed hands. Now, under pressure from its core supporters, the government says it will expropriate more land and review the willing-seller-willing-buyer principle under which it has operated so far.

AFP

It would be nicer to hoe for herself

In January, the Pniel farm in Northern Cape province became the first to be expropriated after its owner, the Evangelical Lutheran Church, and the government failed to agree on the terms of a sale. But although the word conjures up the spectre of Zimbabwe's disastrous land grabs, expropriation in South Africa is not as harsh as it sounds. Such sales have been orderly if compulsory. In the case of Pniel farm, the church got 35.5m rand ($5m) in compensation. The government says that expropriation, a lengthy process, remains a last resort, only for when negotiations with sellers stall completely.

Why has land reform been so slow? Land restitution, or compensation for those blacks who were forced off their historic land after 1913, as in the case of Pniel, has in fact gone quite smoothly: 90% of claims have been settled, mostly in cash. But many larger, more complex rural claims are outstanding; redistribution to new owners has been much slower.

Part of the problem is red tape and incompetence. Like most arms of government, the Department of Land Affairs is short of trained officials. Tales abound of unanswered phone calls, missed appointments and lost files. The government, for its part, accuses farmers of inflating land prices and stalling on negotiations.

There is no shortage of willing sellers, though. About 5% of farmland has been up for sale every year, which in theory makes the 30% target look easily obtainable. In KwaZulu-Natal, black farmers have actually bought as much land on their own as the government has redistributed.

But there is often a mismatch between the farms for sale, usually quite large ones, and what would-be farmers can buy with the small government grants they receive. By law, to preserve efficiency, farms may not be subdivided. And though exceptions can be made, getting permission for them is cumbersome and rare.

The result is farms owned by dozens of people pooling their resources, often with dire results. The new owners may have different ideas about how to run the farm, or whether to farm at all. Many lack the

experience or money to make things work: most transferred or restituted farms fail.

South Africa's white-owned farms were built up over many decades, with massive government support. But subsidies and trade barriers have vanished over the past decade, so commercial farmers have been opting out in droves, unable to make ends meet: from 60,000 in the early 1990s, there are 45,000 today. Successful farms have got larger, with machines replacing labour. Hundreds of thousands of farm workers have lost jobs.

The government seems unclear about what sort of farming it wants. New and inexperienced farmers are unlikely to survive on small plots without a lot of support. What the government provides is often too little, too late. Three years ago, Leonard Le Roux, a coloured (mixed-race) farmer and 41 others pooled their grants to buy Die Kop, a farm in the Karoo, the vast dusty grassland in the south and west of the country.

But it took two years to get money from the government to buy equipment. The farm survived mainly thanks to a neighbouring farmer, who lent implements and advice. “It's not the lack of will but rather the lack of synchronisation between state and market that fails land reform,” says Mohammad Karaan, who chairs the National Agricultural Marketing Council.

But hope persists. Land affairs officials are sounding keener on shared-equity schemes, whereby new farmers team up with experienced ones, often the previous owner. Johan Keller, for instance, has sold one of his farms near Oudtshoorn, in the Karoo, to his workers. Together they have formed a management company, of which he owns 70%. The idea is that he will gradually shift more responsibility and equity to his former workers and then withdraw, but he reckons it will take much time and effort before they can stand on their own feet.

Another group of prominent Afrikaner businessmen and academics is organising hands-on support and encouraging partnerships between new and old farmers in the Renosterrivier area, in the Free State. Large sugar mills are also supporting small black farmers, buying what they produce and helping with advice and finance.

Lulama Xingwana, the agriculture and land affairs minister, promises to shake things up still more. “If we don't get land reform right,” says her deputy, Dirk Du Toit, “we're sitting on a time bomb.”

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Mali and Mauritania

Swathes of desert but oases of progress

May 3rd 2007 | BAMAKO AND NOUAKCHOTT
From The Economist print edition

Two dirt-poor Saharan states are doing better

WHILE its richer and grander neighbours quarrel and cheat, modest Mali looks askance at Côte d'Ivoire (struggling to reunite a divided country) and Nigeria (making a hash of democracy again), as it makes quiet progress. As a result, on April 29th its people re-elected their president, Amadou Toumani Touré, for a second five-year stint in office. Meanwhile, Mali's almost equally poor and sandy neighbour to the west, Mauritania, has had a similar success, with its first free election since independence in 1960.

Political progress apart, their economies both have a very long way to go. Ranked third from the bottom in the UN's world human-development index, Mali is a tough place to live. Infant mortality is among the world's highest, adult literacy among the lowest. Some 12m-strong, Malians on average earn less than $400 a year. Although most farm, only a quarter of the land is productive—and is being eaten away by the Sahara desert as it creeps south. To make matters worse, Mali has been hit by drought and a plague of locusts. Its cotton industry is fading. Civil strife in Côte d'Ivoire has disrupted its main outlet to the sea.

Still, other things have been improving. Mali's election was the fourth in a row after decades of dictatorship. Mr Touré, who seized power in a coup in 1991 before handing power back to civilians a year later, avoided politics for a decade before returning to power in 2002.

Since then, known simply as ATT or more grandly as “the soldier of democracy”, Mr Touré has fostered a system of government by consensus. He belongs to no party but is supported by a coalition of 44 of them. His seven challengers all have representatives in government. “We think that when all the players are brought together we can avoid useless politicking,” he declared before the election. “Western confrontational democracy would not be a good thing in our country because it risks degenerating into regionalism, factionalism and ethnicity.”

Not everyone in Mali agrees—and the notion that adversarial politics means chaos has often been cited as justification for dictators elsewhere on the continent. Mr Touré's opponents have cried foul, complaining that soldiers were told who to vote for, ballot papers were floating around before election day and voter lists were inaccurate, with many dead still on the register. But most foreign and local observers said the poll was fair enough.

With its cotton industry withering, Mali is now Africa's third-biggest producer of gold. It also hopes, in the next five years or so, to produce oil. Mr Touré, a champion of mechanisation, wants to increase Mali's output of cereals from 3m tonnes today to 10m by 2012. Donors are rewarding Mali's quiet progress with hundreds of millions of dollars of aid. In the forefront is the United States, which sees Mali as a key ally in its war on terror in the region.

Has Mauritania set a Saharan trend?

Coups d'état are frowned on these days in Africa. But the one in Mauritania seems so far to have turned out nicely, even for those who were rudest about it at the time. Nineteen months after he ousted President Maaouya Taya, who had clung on to power for over two decades, Colonel Ely Vall graciously left office a month ago.

Most of sand-blasted Mauritania's 3m inhabitants are also dirt-poor, despite their country's abundance of iron ore, fish and, more recently, oil, though their GDP per head, at $530, is higher than Mali's. They are now looking to their new ruler, Sidi Ould Sheikh Abdellahi, to improve their lot. The election he won in March was Mauritania's first free one since independence 47 years ago. Hope has risen in a Saharan country that, like Mali, straddles Arab and black Africa.

Governments in Africa, Europe and America voiced their disapproval when Colonel Vall took power in a bloodless coup in August 2005. But he kept his promise to hold an election in which no coup leader would compete. The transition has been smooth, authoritarian rule has been softened and the polls—free and fair—took place earlier than originally planned.

The United States lambasted the military takeover. But John Negroponte, its deputy secretary of state, was on hand last month to praise both the colonel and the new president, promising to renew aid and to bump up military co-operation, not least because Mauritania—like Mali—is an ally in America's war on terror in Africa.

Mauritania's new president promises to tackle poverty and injustice. Under a calm surface, social tensions are strong. Mauritania's conservative ruling class has a poor record. Vast villas behind high walls in the capital, Nouakchott, testify to the wealth of the country's Moorish elite. Bubbling frustration in the slums, particularly among black Africans, may boil over if things do not improve. Mr Abdellahi, who hails from the long-dominant white Moorish establishment, may struggle to convince people he will break with the past.

“It was good the soldiers came and went,” says Amadou, a taxi driver sipping sweet mint tea. “They say they will change things—but we will see.” Mauritania's full diplomatic relations with Israel are popular in Washington but less so back home. Clashes between African and Arab Mauritanians in 1989 and 1990 led to tens of thousands of blacks fleeing or being deported. It is unclear whether Mr Abdellahi will let them back.

His trickiest task will be to tackle slavery, which has resisted three attempts at abolition. The last law, in 1981, banned it but failed to criminalise it. However much it is denied, an ancient system of bondage, with black slaves passed on from generation to generation, still plainly exists.

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Turkey

Secularism v democracy

May 3rd 2007 | ANKARA AND ISTANBUL
From The Economist print edition

AP

A military coup was avoided, but an early election looms. Turkey's problems are postponed, not solved

Get article background

ITS prime minister, Recep Tayyip Erdogan, said it was “a shot fired at democracy.” Others labelled it an “e-coup”. Whatever you call it, a threat to intervene against Turkey's mildly Islamist government posted on the general staff's website on April 27th has hurt democracy and deepened the chasm between the secular and the pious. A defiant Mr Erdogan has called for an early general election. It may take place in July, instead of the scheduled date, November 4th. Opinion polls suggest that his AK Party will again beat its secular rivals.

How would the army respond to that? Seasoned Turkey-watchers who once scoffed at the notion of another coup say that it now can't be ruled out. Many admit that the European Union is partly to blame. EU dithering over Turkish membership has dented enthusiasm: when Olli Rehn, the enlargement commissioner, scolded the army for its meddling, few paid attention.

The row began when Mr Erdogan nominated his foreign minister, Abdullah Gul, to replace President Ahmet Necdet Sezer, who steps down on May 16th. Mr Gul once flirted with political Islam; his wife wears a headscarf (as do 55% of Turkish women). That was deemed to pose an existential threat to the secular republic. Deniz Baykal, the leader of the main opposition Republican People's Party (CHP), succeeded in blocking Mr Gul's election in a first parliamentary vote on April 27th, claiming, dubiously, to the constitutional court that parliament lacked a quorum.

It was up to the court to decide if Mr Baykal was right. But the generals were taking no chances. In their ultimatum, delivered before the 11 judges gave their verdict on May 1st, the army listed examples of how the government was supposedly allowing the country to drift towards an Islamic theocracy. When the court then ruled in favour of the opposition, nobody was surprised.

Nearly a million secularist Turks gathered in Istanbul on April 29th, to stage their second mass protest against the government in a fortnight. That makes it hard for Mr Erdogan and his AK Party to dismiss the crisis as a brazen attempt by the army to reassert its influence. Chanting “no to coups” and “no to *sharia*” the demonstrators said their free-wheeling lifestyles were under threat. Many were women who say they are the most vulnerable of all. Some cited attempts by the AK to create “alcohol-free zones”, others a bid to outlaw adultery. Many declared that an AK president, prime minister and parliamentary speaker was more than they could bear.

Yet none was able to name a single law promoted by the party that directly challenged the secular tenets of the constitution—because there is none.

The deeper malaise felt by these urban secular “white Turks” is really rooted in the millions-strong migration from rural Anatolia to the big cities in past decades. Assertively pious and aggressively entrepreneurial, this new class, championed by Mr Erdogan, has been steadily chipping away at the economic and political power of the secular elite. “The white Turks see women with headscarves walking dogs [and] jogging in their neighbourhoods and it drives them mad,” says Baskin Oran, a liberal academic in Ankara. That shock may fade; in time it will become more difficult for the generals to turn secular hostility to Anatolian carpetbaggers into paranoia about creeping Islam, he reckons.

The secularists have weaknesses too. The CHP, founded by Turkey's republican hero, Kemal Ataturk, has been out of power for more than a decade. Kemalism once transformed Turkey, but has now failed to transform itself, says Mr Oran.

While the cocky Mr Baykal shows no signs of self-reproach, an unprecedented bout of soul-searching prompted by the cyber-coup is beginning to grip the AK. During four and a half years it has failed to assuage secular suspicions and to reach out to the opposition. The party should have realised that the country was not ready to have an AK president, a party chief concedes. The present rumpus could have been averted had Mr Erdogan picked a presidential candidate outside his party. Now the prime minister suggests changing the constitution to let the people choose the head of state themselves.

That might be a step forward, but sceptical liberals say Mr Erdogan's views on democracy are selective. “Where was he when Kurdish politicians were being arrested and beaten and *Nokta* [a dissident magazine] raided by police?” asks one.

The government's response to the army's ultimatum was unusually crisp. Cemil Cicek, the justice minister, called it “unacceptable” and reminded the generals that they were constitutionally bound to take their orders from the prime minister, not vice versa.

It is not just the army's taste for politics that is worrying. The top general recently said a military attack on Kurdish rebels based in northern Iraq was “necessary” and “useful”. Though he agreed that the constitution gave parliament authority over the armed forces, many fear that the army may decide to attack all the same. “They are itching to,” whispers a westerner who observes Turkish security. This may explain why America's response to the political crisis has been so lame. “The last thing they want is a quarrel with the Turkish military,” a European official observes. The nightmare for America is Turkish and American soldiers exchanging fire in Iraq. Based on the past week's events, nothing can be ruled out.

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France

The final countdown

May 3rd 2007 | PARIS
From The Economist print edition

Reuters

A gripping campaign reaches a fascinating end

Get article background

THIS weekend's presidential election has captured the imagination of the French like nothing else for years. On May 2nd, a huge 20m-plus people tuned in to a two-and-a-half-hour television debate between the Socialists' Ségolène Royal and the Gaullists' Nicolas Sarkozy—nearly as many as watched the 2006 World Cup final. Campaign rallies across the country have drawn tens of thousands. Turnout in the first round of voting was at its highest since 1974. As the French prepare to make their choice, the burden of expectation about the start of a new era, after 12 stagnant years of Jacques Chirac, is almost worryingly high.

Both contenders have spent decades in politics, but there is a sense of novelty about this election. Neither has stood for the presidency before. Ms Royal is the first woman to reach the second round. Mr Sarkozy is the first candidate to stand whose father was not French (he fled communist Hungary after the war). Both have borrowed policies across the ideological divide. Both promise, in different ways, to turn the page on the past and make swift reforms to modernise France.

But it is the contest for the centre ground, fought over values and personalities, not policy differences, that has dominated the final two weeks of the campaign. This is particularly necessary for Ms Royal, who trailed Mr Sarkozy in the first round, picking up 26% to his 31%. To secure a second-round majority, she needs a big share of the nearly 7m voters (18.6%) who backed François Bayrou, the centrist candidate. She ruled out any deal with him before the first round. Now she has been courting his voters unapologetically. Referring to the first round's early results broadcast at 8pm, Mr Bayrou notes wryly: “at 7.59 I was unrespectable; at 8.01 I became extremely seductive.”

Having earlier refused to endorse either candidate, Mr Bayrou said on May 3rd that he would definitely not vote for Mr Sarkozy. He had already implicitly backed Ms Royal, taking part in a television debate with her. They disagreed over her economic policy—too state-centred, he said—but agreed about the need to strengthen democratic accountability. Mr Sarkozy grumbled that Mr Bayrou seemed not to realise that he had lost. Ms Royal said that she would not rule out naming him her prime minister.

For Mr Bayrou this bizarre exercise was designed less to help Ms Royal than to serve his own longer-term purposes. He wants to create a new centrist party for the parliamentary elections in June. The trouble is that most of his existing party's 27 deputies—who have their roots in centre-right Christian democracy—were elected thanks to a deal with the Gaullist right. Fearful for their own seats, and uncomfortable with Mr Bayrou's unprecedented leftward lurch, over two-thirds of them have now decided to back Mr Sarkozy. Even the leader of Mr Bayrou's own party in parliament, Hervé Morin, has backed Mr Sarkozy. Mr Bayrou's big gamble will work only if the Socialist Party itself splits—perhaps in defeat—maybe allowing him to win

over some of its leading moderates.

Ms Royal faces tricky manoeuvres too. She is courting centrist voters and Socialist moderates, such as Dominique Strauss-Kahn. He could be her prime minister, she said; that may have surprised Mr Bayrou who had been given the same hint a day earlier. Yet she also needs to make sure hard-left voters turn out for her. She even commissioned a report on globalisation and food security from José Bové, an anti-globalisation campaigner once jailed for trashing a McDonald's restaurant.

The one element that unites this improbable collection of bedfellows is hostility to Mr Sarkozy. In a particularly scathing attack, Mr Bayrou denounced his “temperament” and “taste for intimidation and threats”. Ms Royal has called him “dangerous” and contrasts her programme of “reform with calm and serenity” with his “path of brutality” and “division”. She stands for “humane values”, she insists vacuously, against his “each-for-himself” philosophy.

Mr Sarkozy probably has the electoral arithmetic on his side, although the National Front's Jean-Marie Le Pen called on his supporters to abstain, costing him some of the far-right's 10.4%. He has a reputation for competence that Ms Royal lacks. Early in the campaign, she made a series of foreign-policy gaffes. More recently, she has changed her mind with baffling speed about an amnesty for illegal immigrants and a proposed new work contract for the young. Mr Sarkozy, by contrast, has kept a remarkably steady line, repeating his relentless call for more work, less tax, and respect for the law. If anything he has stepped up his right-wing message, attacking the “laxist” heritage of the student revolt of May 1968.

The debate largely confirmed those differences. Ms Royal dealt in generalities: “My tax will be at the level necessary for social justice,” she declared when challenged on pension reform. Mr Sarkozy sounded more the technocrat, sticking to his policy briefs. The evening's big surprise was that Mr Sarkozy, who is usually caricatured as aggressive and tempestuous, often found himself on the defensive, and yet managed to keep his cool. Ms Royal, on the other hand, put in a feisty performance that erupted into downright testiness. At one point, on the subject of school places for disabled children, she accused Mr Sarkozy of “lying” and of “political immorality”, declaring herself “scandalised” and “very angry” at him. Mustering all his gravitas, and with a hint of irony, Mr Sarkozy replied: “To be president of the republic, you have to be calm.”

An earlier poll had suggested that voters saw Mr Sarkozy as more “robust” and “coherent”, while Ms Royal was “nicer”. Having seen her tough, combative side in the debate, some voters may rethink that. That may shore up her political base. But it may not be enough to win over waverers. Having gained between 51% and 54% in every poll since the first round, Mr Sarkozy remains the favourite.

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Estonia

Bronze meddling

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Russian hypocrisy and heavy-handedness towards a former colony

CLUMSINESS on one hand, unprecedented bullying on the other. That is the story of Russia's reaction to Estonia's decision to move a Soviet-era war memorial and 12 unmarked graves from a prominent position in the capital, Tallinn, to its international military cemetery.

Handled better, the move might have ruffled fewer feathers. But Estonia's prime minister, Andrus Ansip, first raised the issue for party advantage. He wanted his Reform party, founded by zealously free-market ex-communists, to pinch some patriotic votes from other centre-right parties in the March parliamentary elections. His country is now paying a colossal political, social and diplomatic price.

After the Estonian authorities sealed off the monument last weekend, hundreds of people, mostly from the 300,000-strong ethnic Russian population, rioted in Tallinn. They attacked the main theatre and the Academy of Arts, chanting “Fuck Estonia”, and “Russia, Russia”. Secondary-school pupils unfurled a banner outside parliament reading “USSR forever”. The supposed aim was to protect the war memorial—a bronze “liberator” that Estonians see as a symbol of their country's decades-long enslavement by the Soviet Union. But the main activity was looting. Dozens of shops were raided. The police, initially overwhelmed, made 1,000 arrests. One man was stabbed to death—in a row with another looter, Estonia says.

The rioting was not wholly spontaneous. Russian embassy officials had previously met leading protesters in curious places such as a botanical garden, according to pictures leaked by local spy-catchers. After the riot, another front opened: state websites were swamped by attacks from computers with Kremlin IP addresses.

That was swiftly followed by a blockade of Estonia's embassy in Moscow by protesters from Kremlin-run youth movements; they have attacked it with eggs, stones, paint and deafening music, ripped down the flag, and jostled the ambassador. They now threaten to demolish the embassy on May 9th, a public holiday that marks Soviet victory in Europe. Estonia has protested. So has NATO, mildly. Russia says it has stepped up security and blames Estonia for “stoking tensions”.

Then on May 1st Russian oil and coal exports to Estonia stopped, pending railway “repairs”. Freight transit through the country is lucrative for Russian business. But like other threatened boycotts, the move will not hurt Estonia much. Previous Russian sanctions have forced Estonian firms to trade chiefly with the West. Still, gas supplies are truly vulnerable, while the thriving tourism industry is nervously counting cancelled bookings.

Russia's rhetorical onslaught has been ferocious. Ignoring the looting, media there claim that “anti-fascist schoolchildren” trying to stop Estonians “demolishing” the memorial were “tortured” by the “inhuman” police. Russia's foreign minister said Estonia was behaving “disgustingly”. A delegation of Russian politicians, invited to see that the monument had been moved, not demolished, called for the government's resignation before setting off. On arrival, they repeatedly insulted their hosts, while demanding that “political prisoners” be freed.

This has scary echoes for Estonians. In 1940 a Soviet delegation issued similarly phrased demands. Weeks later, Estonia was wiped off the map. The protests also sit oddly with the ruthless way that entirely peaceful and purely political protests are squashed in Russia, as well as with the often casual treatment of war memorials there.

Estonian nerves are jangling. The riots punctured the illusion that local Russians were integrating smoothly. Meanwhile a country that was for long a European darling has been left pitifully exposed by its allies' muted and belated response.

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Ireland

Sinn Fein's moment?

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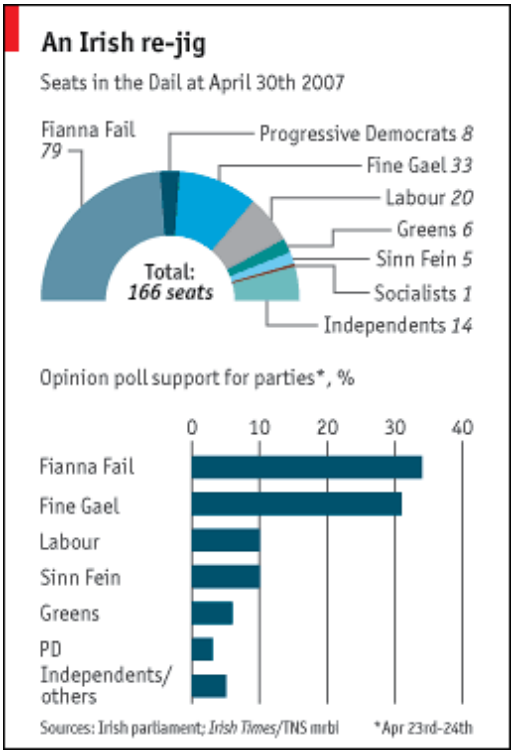
Bertie Ahern hits the ground stumbling in Ireland's general election



A FURTIVE early morning dash on Sunday to advise Ireland's president, Mary McAleese, to dissolve the Dail (parliament) made an inauspicious start to Bertie Ahern's election campaign.

The taoiseach (prime minister) hopes to win a third successive term in office. Fianna Fail has ruled Ireland for nearly 18 of the last 20 years, for the past decade jointly with the small, right-of-centre Progressive Democrats.

But the “Teflon taoiseach's” timing and tactics are disconcerting his supporters. He may have left his dash to the polls too late. Only last autumn, his electoral prospects looked bright. The economy was soaring, and the opposition floundering.

Since then, Fianna Fail's poll ratings have dropped. A scandal involving undeclared loans and gifts Mr Ahern received when finance minister in the 1990s has reopened. All this is despite his prominent role in putting the Northern Ireland peace deal back on the rails; despite a giveaway budget in December; and despite a plan announced in January to spend €184 billion ($250 billion) on roads and the like over the next seven years.

The economy is still expanding, but less exuberantly than it was. The Central Bank last month trimmed its earlier 5.75% growth forecast for 2007 by a percentage point. Rising interest rates are beginning to curb the excesses in the property market. Sharply rising personal debt levels have dented consumer confidence.

That has given the centre-left coalition of Fine Gael and Labour a fighting chance. In the most recent poll (see chart) they held a four-point lead over the government parties. Ireland's single-transferable-vote system means that this will not translate directly into seats in the Dail. And though Fianna Fail seems set to lose seats, it may not lose office. Mr Ahern says he could work with the Greens, who are likely kingmakers in the post-election haggling. He has even said he could work with Labour (who scoff at the idea).

The big question is whether Mr Ahern would talk to Sinn Fein, the IRA's political wing. On May 8th its retired gunmen will take power in Northern Ireland, in conjunction with their former arch-enemies, Ian Paisley's hardline Democratic Unionists. Could Mr Ahern, famously flexible, let Sinn Fein into government in Dublin too, or at least rely on their support to stay in power? He has emphatically ruled such options out. At least for now.

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Germany

Raving ravens

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Germany needs more children. Who will pay, and who will look after them?

A TIRELESS reformer, Ursula von der Leyen is also one of Germany's most popular politicians. She has two degrees (in medicine and business) and seven children. She may be ideally qualified to run the family ministry, but this does not always make her popular with her government colleagues.

By 2013 Mrs von der Leyen wants to treble the number of available nursery places to 750,000, covering one-third of Germany's under-threes. That, she argues, will make it easier for mothers to work, and encourage them to have more children: Germany has the lowest birth rate in rich Europe, with 1.3 children per woman compared with 1.9 in France and 1.8 in Sweden. The birth rate among professional women is particularly low.

Mrs von der Leyen thinks Germany is getting a bad deal. The state spends 2.9% of GDP on family policy compared with an average of 2% in the rich countries of the European Union. Most goes in cash payments to parents; in France and Scandinavia, by contrast, most of the budget goes on child care. In western Germany almost all schools and nurseries close at lunchtime. But the proposal has infuriated social conservatives. Walter Mixa, a Catholic bishop, said it degraded women to “birthing machines”. Such attacks reflect in part the German state's troubled relationship with family policy in the past. Leonie Herwartz-Emden of Augsburg University says the word “motherhood” is loaded because of the Nazis' glorification of child-bearing. Yet these days working mothers are sometimes called *Rabenmütter* or raven-mothers, reflecting the notion that this species abandons chicks pitifully early in life.

An even bigger row is about the cash, estimated at €3 billion ($4 billion) a year, needed to pay for the reform. Germany's federal states and municipalities have backed the scheme, but only if they don't have to pay for extra running costs. The Social Democrats suggest paying for it by cutting child-benefit payments and tax breaks for married couples. But their partners in the governing coalition, the Christian Democrats and their Bavarian sister party, as well as the chancellor, Angela Merkel, oppose rejigging subsidies this way. Mrs von der Leyen is meeting the finance minister on May 9th. Much will depend on whether the even more popular Mrs Merkel will continue to back her protégée.

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Russia

Bandit land

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The UN's troubling departure from Ingushetia

EVEN by the standards of the Caucasus, the two little-noticed rocket-propelled grenade attacks in March on the United Nations' office compound in Nazran, the main city of the republic of Ingushetia, were worrying. One of Russia's poorest provinces, it hosts thousands of refugees, and is supposedly a safe base for international agencies working in neighbouring Chechnya. The bombardment gave the lie to Kremlin claims that life in the region is “normal”. But the real story of the decision by the World Health Organisation, the World Food Programme, UNICEF and others to pull their expat staff out to Vladikavkaz has a still more alarming aspect.

The Economist understands that the attacks followed a dispute about money between the UN's security department and the bit of the Ingush interior ministry responsible for guarding their compound. The UN apparently resisted a demand by the guards that it pay for all their other work at the compound (which is used by other outfits too).

Officially, all sides deny any disagreement. A UN official in the region pooh-poohs a link with the grenade attacks as “half-arsed”. Yet some UN-niks have been heard to say that their supposed protectors have been harassing them. Curiously, one of the two grenades narrowly missed the building used by the UN security team. The other one hit it.

The unlikely good cop in this sorry tale seems to be Russia's infamous Federal Security Service. It warned the UN about further violence, and of a serious threat of kidnapping. Foreign UN staff now avoid even travelling through Ingushetia, for example en route to Chechnya. The Ingush government has reportedly offered sympathy but little else. No wonder: bombings, killings and kidnappings are commonplace there, driven by a dizzying mix of politics, religion and revenge. Two members of the Ingush president's family have been snatched. The security services are both victims and perpetrators of the chaos.

For all its oil-fuelled bravado, the Kremlin all too often fails to meet its people's basic needs, relying instead on outside agencies and charities (it routinely accuses the latter of espionage). It seems that Russia—a permanent member of the UN Security Council—may be unable to protect that organisation's staff from its own state servants. Unable, or unwilling: it can be hard to tell if corruption happens against the Kremlin's wishes, or with its blessing.

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Charlemagne

Winning by degrees

May 3rd 2007
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Peter Schrank

Europe's universities are the reluctant and unlikely pioneers of public-sector competition

EUROPE wants to be competitive, but it's not ready to accept competition, notes Esko Aho, a former Finnish prime minister and European Commission adviser on reform. And if you wanted to examine parts of European life that yearn to be world class, but are determined to hold out against market forces and the laws of competition, the continent's universities would be a good place to start. They are cherished national champions, often funded and usually controlled by the state, and sometimes crammed with political appointees. In much of “old Europe”, universities give a valuable product—degrees—away more or less for free. That is a pretty effective way of avoiding consumer pressure. They are further shielded from competition by such things as tradition, national pride and language.

In the realm of private business, the EU has fostered competition in markets for capital and goods. The European Commission works hard at busting cartels, and tries (sometimes successfully) to stop governments bailing out no-hopers with taxpayers' money. Yet the EU (quite properly) has no powers to regulate education policy. Alas, in much of Europe, that means subsidies, micro-management and legally backed monopolies that govern the way universities are run. Small wonder that many famous names are shadows of their former selves.

Unleashing universities' “full potential”, and “mobilising the brainpower of Europe” are at the heart of the commission's plans to create a knowledge-based European economy. And change is indeed coming—but by accident. The trigger is a modest but worthy scheme called the Bologna process, which is designed to make it easier to compare courses between countries, and to move between them. So a Belgian student who spends a year in, say, France, gets a credit that means something at his home university. A university selecting candidates for an over-subscribed course will know how to rank a French student brandishing an “Assez Bien”, an Englishman with a “2:2” degree and a Spaniard with a “Sobresaliente”.* That doesn't sound very ideological. But the debates it has sparked certainly are. Europeans do not think the same way about higher education. As soon as you make the differences more visible, the rowing starts.

In Sweden, for example, academics are squabbling over calls to match their marking schemes with standardised Euro-grades, from A (excellent) to F for Fail. Students risk psychological harm, they fret, if visibly labelled successes and failures. Much better to stick with a two-level system of pass and fail, or (if you will insist on such elitism) one extra level of “pass with distinction” for the top quartile. Jacob Christensen, a political scientist at a Swedish university, Umea, suggested recently that Swedes “are expected to descend into deep psychological disorder as soon as they encounter disappointments in everyday life”.

In England, ministers and university bosses complain that the Bologna rules draw too deeply on continental ideas of student achievement, measured in terms of hours spent in seminars and lecture

theatres. Forget hours of work, English dons insist: the world holds both quick learners and plodders. What matters is what a student has learned. They would say that, other Europeans retort; they decry Britain's one-year taught masters' degrees as lightweight. The truth is that they are highly competitive (and attract lucrative students from overseas). Britain fears they may be threatened by the Bologna guidelines.

The Bologna process has no legal force behind it; but it is still forcing big changes. A voluntary agreement among governments, it extends far beyond the European Union with 45 signatory nations, from Norway to Azerbaijan. Self-interest explains much of its impact. Bologna has prompted a mass tidying-up of the tangle of different degrees awarded in different European countries. The main effect will be to ditch the continental style of first degree, which typically takes five or six years: expensive (for the taxpayer) and wastefully languid (for the student). Given that most governments in “old Europe” are terrified of introducing fees, shorter degrees offer the next best way of saving money.

Adopting the familiar international system of an education in three chunks—a standard three- or four-year bachelor's degree, a master's for the ambitious, and a PhD for real brainboxes—should also make Europe's universities less baffling (and more attractive) to foreigners.

Change is still hard. Greece's government recently abandoned plans to legalise private universities, after three months of protests. In France, selective entrance exams for public universities remain a taboo (unlike the fabulously exclusive *grandes écoles*). In Finland, Karl-Erik Michelsen of Lappeenranta University complains of a “big social-democratic project to create a massive number of people with master's degrees.” The result, he says, is that “quantity overrides quality.”

Blinking in a bright light

But do not underestimate the power of transparency. Once students can compare their courses more easily with those offered abroad, they may start to question their degree's value. Even if for many the formal price is zero, students are still paying with their own time, deferring earnings and incurring living costs.

The more hidebound European universities must be wondering what on earth they have started. Self-interest has prodded them to think about students as customers: both wealthy foreign ones, and bright locals tempted to finish their studies overseas. Governments have realised they could save money if their universities made students study a bit more briskly, gaining degrees and entering the workforce earlier. Universities are beginning to compete for the brightest and best European exchange students too. But that's the problem with trying to become competitive. Before you know it, you may find yourself having to compete.

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*The Spaniard did best, then the French student, then the Englishman

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Defence procurement

The Battle of the Budget

May 3rd 2007 | CONINGSBY
From The Economist print edition

David Simonds

The armed forces are fighting for investment at a time when the shape of future threats has rarely seemed less clear

WITH the approach of summer, pilots at the Royal Air Force's base in Coningsby are preparing their vintage aircraft from Battle of Britain times for the season's popular air shows. These days, though, the buzzing of Spitfires and Hurricanes in the skies over Lincolnshire is drowned out by the imperious roar of a newer arrival.

Typhoon, to hear the pilots talk, is as impressive a plane as the Spitfire was in its day. With its power, agility, ease of control, ability to fly high and fast, modern weapons and data links, Typhoon can beat any jet in the world, they claim, except possibly America's top-of-the-line (and far more expensive) F-22 Raptor.

Perhaps so. But the army and the navy are less than enamoured. The 232 planes the RAF is expecting to buy will cost some £20 billion ($40 billion) in all, making Typhoon Britain's most expensive defence programme yet. It is eating up funds that could go to equip other services—and this at a time when overstretched ground forces are fighting wars in Iraq and Afghanistan. Built by a consortium from Britain, Germany, Italy and Spain, Eurofighter (as Typhoon was known) was designed to give superiority in the air during the cold war. Critics argue that it is ill-suited to today's business of seeking out insurgents on the ground.

Not true, says the RAF. Typhoon will excel both at shooting down other planes and at precision bombing and aerial reconnaissance. The air force hopes to prove its point in the coming months. The first operational Typhoon squadron will be on high alert in June, ready to protect Britain's skies from foreign intruders and intercept hijacked aircraft. By the middle of 2008 the RAF expects to have the multi-role version on the front line supporting ground troops in Iraq or Afghanistan.

The RAF says air power should not be taken for granted; it is only through mastery of the air that the army and navy enjoy freedom to manoeuvre below. The Falklands war 25 years ago was a reminder that unexpected conflicts do happen.

The trouble is that it takes decades to develop a complex new defence system but threats change quickly. Each of the services argues that it holds the key to future security. Their usual tussle with each other and with Whitehall for resources has become more bitter as the Comprehensive Spending Review, which sets the parameters of government spending from 2008 to 2011, nears its conclusion this summer.

Admiral Sir Jonathon Band, the navy's chief, gave warning in February that cuts to the fleet risked

reducing the once-mighty Royal Navy to the status of the “Belgian navy”. The navy frets that it could lose the two new aircraft carriers it has been counting on. With a planned displacement of 65,000 tonnes (and costing around £3.6 billion together), these carriers would be three times larger than the mini-carriers the navy has now. They would carry short-take-off and vertical-landing versions of the Joint Strike Fighter, stealthy planes that are being developed jointly with America to replace the Harrier jump-jets. The Ministry of Defence has proposed buying some 150 for the British navy and the air force. They would cost at least £8 billion in total.

Senior army commanders complain that Britain will have a surfeit of expensive fast jets, even though the main threat in the foreseeable future will come from old-fashioned weapons such as AK-47 assault rifles, grenade launchers and improvised bombs. The army chief, General Sir Richard Dannatt, gave warning in October that prolonged deployments overseas could “break the army”. It claims it needs more money to improve pay and conditions in order to attract soldiers and keep them. Army sources say the service wants to expand its shrunken ranks, raising its current 99,500 soldiers to the full budgeted number of 101,800 and then adding 3,000-4,000 more.

The army also wants to buy medium-weight armoured vehicles to replace existing equipment, some of it built in the 1960s. But the so-called Future Rapid Effect System (FRES), which costs around £14 billion, is hopelessly delayed. If the price of the FRES is the postponement or cancellation of the carriers, say some generals, so be it.

After empire

At its heart, the argument over what equipment the armed forces need, and what they can afford, is a debate about Britain's place in the world. Should it aspire to remain a global power or give up the pretence of imperial policing? Should it give priority to countering insurgency or invest in the capacity to wage high-intensity wars against more sophisticated, but still unforeseen, enemies in the future?

In a speech in January the prime minister, Tony Blair, said that British servicemen should be both “war-fighters and peacekeepers”. In an age of global terrorism, Britain had to be able to project military power around the world because “the new frontiers for our security are global”. This was not to prefer “hard” military power to “soft” political and economic power, but to make sure that they could reinforce each other.

That's all very well, say the top brass, but such ambitions do not come cheap. They also know the real decisions will be made not by Mr Blair but by the man next door—the current chancellor of the exchequer and future prime minister, Gordon Brown. It is unclear whether he shares Mr Blair's global ambitions.

Although the defence budget has been increasing in real terms, it has declined as a share of GDP and now stands at around 2.3% (see chart). Defence spending is running at £32 billion a year—excluding the cost of current operations in Iraq and Afghanistan, estimated at more than £1.5 billion in the year to March 2008. Defence sources say there is a £500m gap in the budget for next year. But the authors of a recent paper in the journal of the Royal United Services Institute argue that the equipment budget (currently about £9 billion) has been under-funded by £1.5 billion a year since the 1998 Strategic Defence Review shifted Britain's focus from defending Europe to expeditionary warfare.

Much of the equipment considered necessary in that review has been cut back, and so has the number of squadrons envisaged. At the same time, the number, size and duration of operations has been much greater than planned. For ordinary soldiers, the strains are visible from the moment they leave Britain in clapped-out Tristar jets to the moment they reach the valleys of Afghanistan with little or no American-style computer networking.

All this does not begin to consider the cost of renewing Britain's Trident nuclear deterrent. The one thing all three services agree on is that the nation's nuclear “insurance policy” should be paid for separately, not out of the defence budget.

Since the terrorist attacks on America in 2001, Britain has in many ways been a country at war operating on a peacetime budget. Without a substantial increase in funds, say commanders, something will have to give. Some argue for a full-blown defence review. “We have lost the art of strategy,” says one general. “All we have is bits of policy.”

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BAE Systems

Big And Expensive?

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From The Economist print edition

Winner takes all

BAE Systems

EVEN as the admirals, generals and air marshals who run Britain's armed forces tussle over defence spending, one clear winner has already emerged: BAE Systems, the country's largest defence contractor. Whatever Britain eventually decides to splurge on—be it more Typhoon jet fighters, aircraft carriers or armoured cars—BAE is likely to be a key supplier. For many products BAE is the only game in town.

There was a time when this would have caused no end of concern. On the second floor of the Ministry of Defence (MOD), the civil servants who kit out the armed forces quip that the firm's name stands for Big And Expensive, and with some justification. In 2003 the National Audit Office (NAO), a government watchdog, reckoned that Britain's biggest defence projects (most of which were managed by BAE) were on average 18 months late and £3 billion ($4.9 billion) over budget. Now enthusiasm reigns, for BAE's performance seems to be improving.

One reason is a new procurement regime. A white paper published almost 18 months ago repaired a fractious relationship between the MOD and BAE, promising to reward the firm for future good behaviour and ending the seemingly interminable squabbles over who was to blame for weapons that came late and over-budget. The government used to make defence firms submit competitive fixed-price bids. It is now passing work to BAE under new partnering arrangements that leave the state with more of the risk.

BAE is also set to get a bigger share of Britain's defence spending than its current two-thirds. Lord Drayson, the defence-procurement minister, is pressing for consolidation in the industry. In shipbuilding, for instance, he wants a merger of BAE's shipyards with those of VT, another defence firm, to eliminate excess capacity.

The new approach requires defence firms to pull up their socks. Until now the MOD allocated each contract on the merits of the specific bids for it. Now, a contractor that delivers late, goes over-budget or builds things that don't work on one contract will have trouble winning another, however attractive its tender.

BAE's ability to deliver quickly has also been spurred on by the pressures of war. In peacetime contractors and civil servants can get away with tinkering for years with the design of a new gun, but quicker results are needed when soldiers are getting shot at. Since British troops were deployed in Afghanistan in 2001, the services have been given greater leeway to bypass bureaucracy and buy things fast, from BAE and other defence manufacturers. The NAO reckons that two-thirds of such streamlined purchases delivered kit on time, a far higher proportion than before.

Signs that BAE is shaking off a reputation for inept project management can be seen both in its home market, where cost overruns and delays are falling, and in export markets. BAE makes almost 40% of its sales in America now and its prospects in other countries look promising. Mike Turner, the firm's chief executive, reckons that the new Typhoon fighter, for instance, may win sales of as much as £60 billion, topping the £43 billion that BAE made from earlier sales of jet fighters to Saudi Arabia.

But future sales may be threatened, and from just that quarter. BAE has struggled to shake accusations (consistently denied) that it has paid bribes to win orders. It is under investigation in Britain and Sweden for deals in Tanzania, South Africa and the Czech Republic. Last year Britain halted a probe into allegations that BAE had bribed Saudi Arabians, citing security concerns. Among those protesting against the move are the OECD, the rich-country club whose members including Britain have signed a protocol against bribery, and America, which is now BAE's biggest customer.

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Press freedom and privacy

Secrets and lies

May 3rd 2007
From The Economist print edition

Lord Browne: the sad downfall of a business genius

HOW are the mighty fallen. Hours after losing a four-month legal battle to keep his personal life private, Lord Browne, close friend of Tony Blair and an admired business leader, stepped down in disgrace as head of BP, which he had helped to build into one of the biggest private-sector energy companies in the world. It was not the revelation that he was gay that caused his dramatic downfall; rather, as with John Profumo of 1960s call-girl fame, it was the fact that he lied.

On May 1st the House of Lords refused to hear a last-ditch appeal by Lord Browne to prevent the publication of a “kiss-and-tell” story by his former lover, Jeff Chevalier, who alleged business improprieties and revealed secrets of their four-year relationship. This cleared the way for the *Mail on Sunday*, a tabloid, to publish an expurgated version of his story.

It also permitted disclosure of Lord Browne's attempts to strengthen his case by lying about how he first met Mr Chevalier—not jogging in a London park, as he at first claimed, but through a male-escort agency. Lord Browne had sought to keep his homosexual relationship out of the newspapers but it was, after all, an open secret among his friends and colleagues. As for the allegations of professional misconduct, BP had concluded that these were unfounded or not substantive. The lie, however, left Lord Browne's personal credibility in shreds, disinclining the courts to believe his version of events. It was above all this lie that he subsequently fought so hard to keep secret.

What was especially shocking, suggested Mr Justice Eady, the High Court judge who heard the original application to stop publication, was the way in which Lord Browne had sought to blacken his former partner's name. He had accused Mr Chevalier of being a liar, addicted to drink and illegal drugs (which was subsequently found to be untrue), depicting himself as a man of honour and distinction.

Such behaviour could have justified the courts in letting the whole story come out and even, perhaps, in instigating criminal proceedings for perjury, Mr Eady said. But the right to privacy of third parties—notably Mr Blair, the prime minister—was also at stake. The exposure of Lord Browne's little “white lie”, as the judge witheringly called it, was “probably sufficient penalty”. And Lord Browne has now incurred a further penalty. By leaving BP immediately instead of at the end of July, when he was due to retire, he will forfeit up to £15m ($30m) in benefits.

Once again, an individual's right to privacy has clashed with press freedom. The courts sought to draw a line between information acquired in situations where there is an “expectation of privacy” and matters deemed to be “in the public interest”. For that reason they ruled that dinner-party tittle-tattle or Lord Browne's views of his colleagues should remain private, but details of his alleged misuse of BP computers and staff to help the man who was then his lover could be revealed.

The bowdlerised sorry tale should be on the streets this weekend. But the story may not end there. The newspaper now hopes to persuade the authorities to pursue Lord Browne for perjury after all.

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Public attitudes

Trust me, I'm a judge

May 3rd 2007
From The Economist print edition

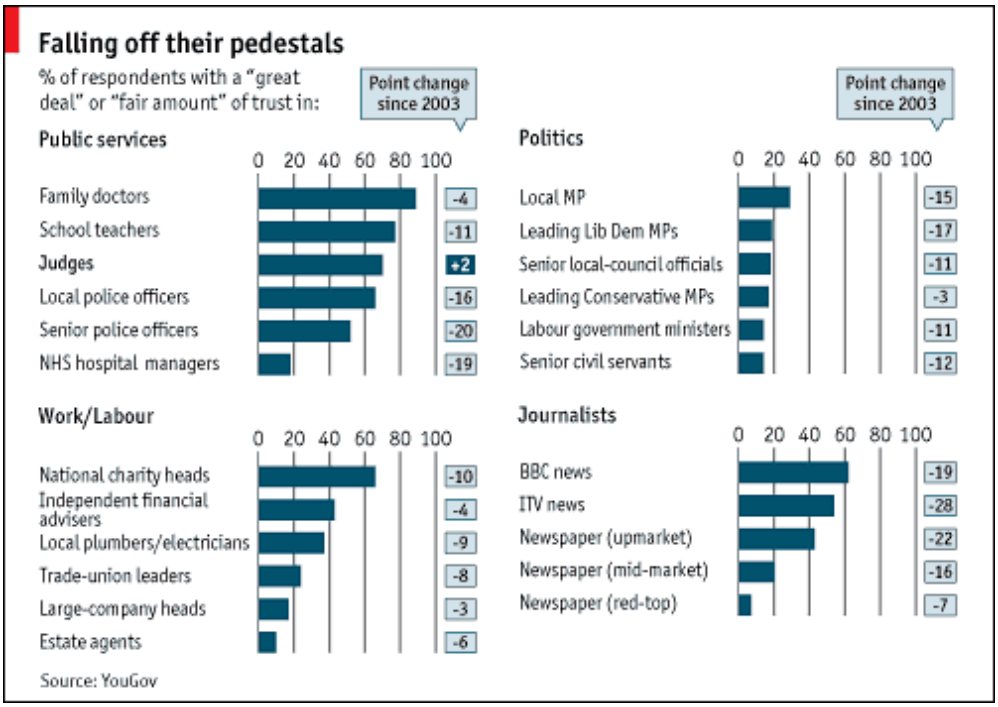
Confidence in authority is collapsing. Mutual suspicion may be the reason

TONY BLAIR, the prime minister, came to power vowing to restore trust in politics by forging a "contract with the British people". Ten years on, according to a poll this week by YouGov for the *Daily Telegraph*, only one person in five thinks Mr Blair is trustworthy.

Not such a social contract, then. But politicians have long had a shaky relationship with ordinary people. More perplexing are the results of another poll by YouGov, which show that confidence in almost every area of public life has fallen since the invasion of Iraq in 2003.

Journalists have fared particularly badly, but doctors, teachers and police officers have all lost credibility (see chart). So have union leaders and corporate bigwigs. Even charity bosses have taken a big hit. Although local versions of authority are often more trusted than their distant counterparts (eg, local bobbies rate higher than senior policemen) only judges have actually gone up in the public's esteem—perhaps because they are seen to have stood up to politicians.

Britons are not alone in their disenchantment. Around 60% of Americans express some estrangement from their government, with as many reckoning their elected officials don't care what they think, suggest figures from the Pew Research Centre. A Eurobarometer survey found Europeans similarly critical of public institutions: a pitiful 15% place their trust in national parliaments, governments and political parties.



What lies behind this gloom? Lord Layard, an economist at the LSE, blames capitalism, globalisation and "rampant individualism" for creating fissures in society that make us mistrustful of others, both vertically and horizontally.

In Britain, at least, the explanation might lie in something more local: the traditional British sense of fair play. As Richard Thomas, the information commissioner, reiterated this week, governments, institutions and companies are garnering vast stacks of personal information through omnipresent CCTVs, credit-card transactions and the like. Despite Mr Blair's claim this week that he has "always trusted the people", most authority figures in Britain appear ever more suspicious of the public. Perhaps the public is simply

returning the favour.

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Housing market

Watch out for the cracks

May 3rd 2007
From The Economist print edition

The boom has built upon itself, which is why it will not last

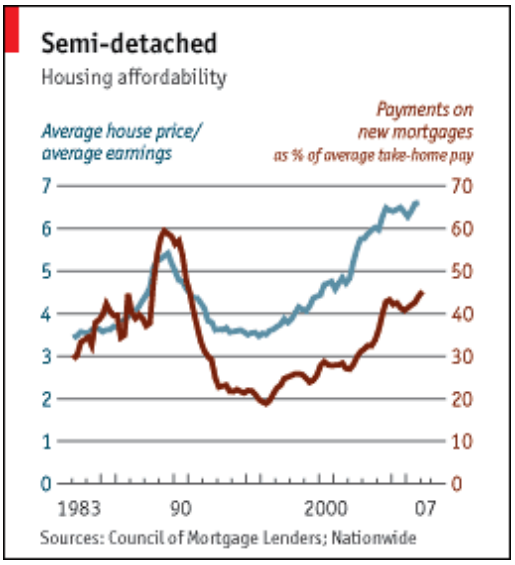
Get article background

IN MAY 1997 Labour swept to power promising that things could only get better. As Tony Blair prepares to stand down as prime minister ten years later, a grumpy public appears to think that things have got worse. Yet one legacy he will leave is incontestable: houses are worth a lot more.

The past decade will be remembered not just for Mr Blair's domination of British politics but also for the most sustained housing boom in post-war history. After the slump of the early 1990s, the market turned in early 1996, a year before Labour won power. In the 11 years since then the average house price has risen by 240%, according to the Nationwide index; in real terms it has increased by 155%. In contrast, the big upturn in the 1980s lasted for seven years, and real house prices rose by 80%.

Two years ago the long boom seemed to be petering out. House prices rose by only 2% in the 12 months to August 2005. But following an interest-rate reduction that month, the market revived. House prices are now rising by 10% a year, close to the average growth of 12% in the past decade. In London and Scotland they have surged by around 15% since early 2006.

The resilience of the housing market has stretched already taut valuations. One yardstick used to assess affordability is the ratio of average house prices to average earnings, which captures whether housing is within reach of typical buyers. This ratio is now much higher than at its previous peak in 1989 (see chart).



Yet this indicator has been flashing red for some time and the market has continued to advance. Home-buyers have been swayed by another gauge of affordability: the cost of servicing a new mortgage loan in relation to their take-home pay. This has been heading up but, unlike the ratio of house price to earnings, it remains below its previous peak.

The housing boom has been built on cheap credit. The conquest of inflation in the 1990s transformed the outlook for interest rates, which dropped in 2003 to a 48-year low. In real terms they also fell, thanks to a glut of global savings as thrifty Asian economies and oil-exporting countries ran big current-account surpluses.

These favourable influences have supported housing markets around the world. The past decade has seen an extraordinary synchronised surge in house prices. The number of countries affected and the scale of the rises have been unprecedented.

The British market has also been supported by a pick-up in adult population growth caused by rising immigration and longevity. Along with this demographic impetus, more and more people are choosing to live alone. As a result, the number of extra households forming each year in England, which averaged 135,000 between 1991 and 2001, has risen to 200,000 since 2001. Official projections published in March forecast that the rate would average 223,000 a year over the next 20 years.

While the rate of household formation has risen, the number of new homes being built has been surprisingly low. Far from rising in response to the thriving market, the rate of completions initially fell, reaching just 130,000 in England in 2001, the lowest since 1947. Since then the supply of new dwellings has picked up, to 160,000 in 2006. However, the rate remains inadequate given the growth in households.

The sheer tenacity of the British housing boom has vindicated those who have kept the faith. Among the believers in property are buy-to-let investors, another new force in the market. By the end of 2006, they accounted for 9% of the total value of mortgages, up from 2% five years earlier. Such investments are now often seen as a more reliable way to build up a retirement nest-egg than pensions.

Yet there are good reasons to doubt that the market will go on rising for much longer. Any imbalance between new households and new homes should be reflected in rents. But the market is also overvalued when house prices are compared with rents. According to the OECD, the ratio of house prices to rents is nearly 70% higher than its average since 1970—well above the peak it reached in the overheated market of the late 1980s.

The danger is that the boom has built on itself to a point where it no longer rests on firm foundations. Residential rental yields are now below the cost of borrowing, which means that landlords are relying on house-price gains to make new investments pay off. That could prove a risky bet. If people start to doubt the trajectory of ever-rising prices, it will make sense to defer purchases, which would cool the market. David Miles, an economist at Morgan Stanley, believes that exaggerated expectations of prospective gains have pushed up house prices well beyond their sustainable level. His estimates suggest that a reversal in expectations could bring the market down with a bump, although precisely when is difficult to predict.

The conditions for such a reversal may now be taking shape. Recent troubles in the American and Spanish housing markets send a message that property is not a one-way bet. The Bank of England is poised to raise interest rates on May 10th; and there may be a further increase by the autumn. Home-buyers have taken on so much more debt that they are now much more vulnerable to higher rates. And they are growing warier. Mortgage approvals fell in March to 111,000, their lowest for almost a year. As Mr Blair bows out, the curtain may also be about to come down on Britain's great housing boom.

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Home Information Packs

UnHIP

May 3rd 2007
From The Economist print edition

An attempt to mend the housing market degenerates into greenwash

THE removal van is loaded and the house is empty—but its owners have nowhere to go. In England and Wales, buyer and seller are both free to back out right up until contracts are exchanged. (In Scotland the system is different.) A quarter of home sales fall through after an offer has been accepted, and £300m is wasted each year on surveys and fees.

Yet attempts to make buying and selling houses easier are staggering from tragedy to farce. The latest twist came this week when a House of Lords committee rubbished government plans to force home-sellers to give potential buyers information at the outset. The Home Information Pack (HIP), which is to become compulsory on June 1st, will not make home-buying easier, fretted their Lordships, and moreover the greenery that has been tacked on to it is unnecessarily expensive and onerous. The Tories have tabled debates in both houses of Parliament for later this month and hope the government will back down.

The saga started a decade ago, when Labour pledged to make sellers produce a HIP containing legal documents (such as title deeds) and a “home-condition report” (HCR) before marketing their homes. The idea was to cut the number of buyers who backed out after a survey uncovered problems, and to speed things up so there was less time for gazumping (the evil practice of accepting a higher bid after agreeing to a sale).

The plans attracted clamorous opposition. Lawyers advised buyers not to rely on surveys that sellers had commissioned. Surveyors, although keen on the extra work (only a quarter of buyers currently bother with a survey), feared being sued by buyers, sellers and lenders. Estate agents warned that there would be a glut of properties for sale before June and none thereafter. Even economists predicted dire knock-on effects.

Most mortgage lenders said they would insist on doing their own valuations rather than relying on the sellers'. Word went out that there would not be enough qualified home inspectors by the June deadline. The U-turn came, as it had to come, last summer: the government gutted HIPs of their central feature.

This evisceration turned the packs into an initiative in search of a rationale. Fortunately, up popped climate change in the shape of an EU directive mandating that energy-performance certificates (EPCs) be made available whenever a property changes hands. Seamlessly, the EPC replaced the HCR as the centrepiece of the HIP, and thousands of would-be home inspectors started training to become domestic energy assessors instead.

It seems that an EPC will consist of observations about such features as double-glazing that buyers could easily make themselves, suggestions about installing solar panels and injunctions not to leave appliances on standby. They are likely to cost about £100 apiece. Some 1.5m dwellings are put on the market each year. Scrapping this frippery could pay for an awful lot of loft insulation.

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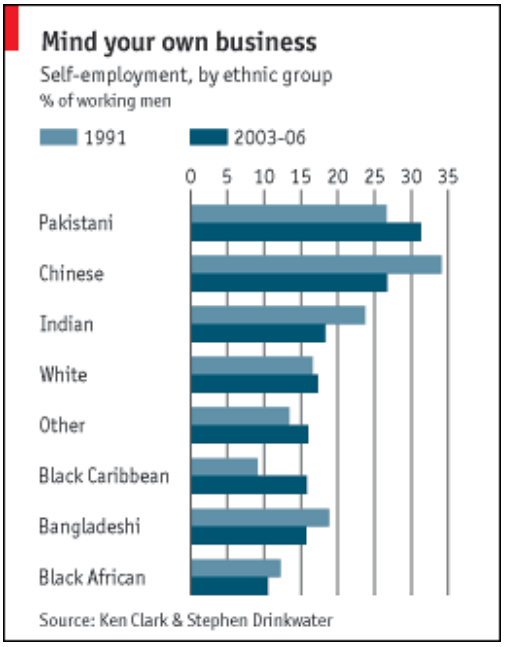
Poverty and ethnicity

Closing time at the corner shop

May 3rd 2007
From The Economist print edition

Why some ethnic groups are going into business and others are bailing out

THREE out of four British Bangladeshi children live below the poverty line. That was the biggest jolt in a series of sad reports on April 30th from the Joseph Rowntree Foundation, a charity that commissions research into social problems. Their focus was the link between ethnicity and poverty, which they found to be pretty robust. Some 40% of those from ethnic minorities live in poverty, it said, if poverty is defined as receiving 60% or less of the median income. This is double the proportion of whites. Even Indians and Chinese were much likelier than whites to be poor, despite trouncing them at school.



The struggle to escape poverty begins with a big decision: whether to seek paid employment or work for oneself. Historically there has been a strong ethnic divide. South Asian and Chinese immigrants have been quick to set up businesses, whereas black Africans and Caribbeans have worked for others. Yet this pattern now appears to be breaking up (see chart). Chinese and Indian men seem to be ditching the takeaways and newsagents, but black Caribbeans and Pakistanis are keener than ever to go into business for themselves.

Ken Clark and Stephen Drinkwater, the authors of the Rowntree report, identify various characteristics that incline workers to self-employment. Those who are born abroad or poorly qualified find it harder to get other jobs. Starting a business usually takes financial and human capital, so older people who own their own home and have families are more likely to set up shop. Educational achievement makes an especially big difference in Britain, where graduates snootily consider self-employment a last resort for dimwits—unlike in America, where plenty of big brains make big bucks starting their own firms.

If this is true, it is not surprising that Indians and Chinese are beginning to turn away from self-employment. Whizzes at exams, young and increasingly likely to have been born in Britain, the latest generation is more apt to become doctors and lawyers than restaurateurs. Black Africans and Caribbeans, meanwhile, still lag behind at school and as a group are slightly older, which may explain their swerve into business. A boom in the construction industry—in which much black self-employment is based—may also have contributed, along with government efforts to boost black entrepreneurship.

The puzzle is Pakistanis. Though they share some characteristics with Indians and Chinese—including improved education levels and a youthful profile—they are moving the other way. “Relative to their qualifications, they seem to get lower returns on paid employment than other groups,” says Mr Drinkwater. That they persist in self-employment may be due to a lack of more rewarding alternatives.

Why don't they find well-paid jobs as easily as others? “Discrimination is the thing we assume is left,” says Mr Clark. But there are other factors: the concentration of Pakistanis in depressed textile towns makes it harder to find employment, and unwillingness to move away compounds this. Lack of English is often a bigger problem than it is for Indians, many of whom have been longer in Britain and came from more sophisticated backgrounds in the first place. Religion may also play its part. Interestingly, white Muslims seem to experience the same labour-market disadvantages as black and Asian ones.

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Bagehot

After Downing Street

May 3rd 2007
From The Economist print edition

Steve O'Brien

Bill Clinton is likely to be the model for Tony Blair's retirement. The prime minister won't find it easy

Get article background

IT SEEMS a long time since a Downing Street memo writer mused last summer on Tony Blair's last triumphal progress: “the crowds wanting more...the star who won't even play that last encore”. When Mr Blair does get round to announcing the date of his resignation next week, sadly, it will seem flat and anti-climactic. The desire to see out ten years in Downing Street was understandable. But the price has been drift and boredom.

That Mr Blair, usually an instinctive thespian, should get the timing of his exit so wrong is not surprising. It is almost unheard of for an inhabitant to leave Number 10 voluntarily. In the last century only Stanley Baldwin, who handed over to Neville Chamberlain after Edward VIII's abdication crisis, comes close. Nearly all prime ministers have the decision about when to quit made for them by the voters, their parties or their doctors.

Mr Blair's only health problem in office was a minor heart flutter that was easily fixed more than two years ago. The voters returned him to office in 2005. Nor has his party officially lost confidence in him, as Margaret Thatcher's Conservatives did in her. A fit prime minister going more or less of his own volition in mid-term—and who is still younger than many of his predecessors were when they began the job—is a rare thing.

None of which makes Mr Blair's predicament any happier now. Without benefit of the boot in the backside that ex-prime ministers usually have inflicted on them, he has to construct a new life at 54. What he does next will not be easy.

For a start, big international jobs are probably out. The United Nations has a new secretary-general, and invading Iraq hardly endeared Mr Blair to that institution. Nor does becoming president of the European Commission seem an option. The incumbent, José Manuel Barroso, owes his job partly to the British prime minister, and Mr Blair lost his starry-eyed view of Europe some time ago. He now regards EU summits as chores to be endured where nothing very good or important is likely to happen.

He might make a galvanising head of NATO, eager to plunge the organisation into ever more exotic expeditionary wars. But the prospect would terrify most of its members.

A vacancy at the World Bank may be coming up, thanks to Paul Wolfowitz's missteps. Although the job traditionally goes to an American, George Bush might stretch a point for his old chum Tony. At the bank he would be well-placed to heal what he once described as a “scar on the conscience of the world”—the plight of Africa. World Bank presidents don't have to be economists, but, having always left that side of things to Gordon Brown, Mr Blair's knowledge of economics is notoriously shaky.

Jobs of this kind are not only hard to get but also too bureaucratic for Mr Blair's style of “sofa government”. Nor are they terribly remunerative. The model he is most likely to look to is the man who gave New Labour much of its inspiration in the first place: Bill Clinton. Although the Blairs will be leaving Downing Street without the Clintons' crippling legal bills, there is a big mortgage to be paid off on a house in Connaught Square. And Cherie Blair has grown used to living in a certain style.

As well as producing an autobiography and setting up a well-funded foundation, Mr Clinton has raked in nearly $40m (£20m) in speaking fees over the past six years, earning about $10m on the lecture circuit in the previous year alone. (Other speeches—he averaged almost one a day—were given for no fee or for donations to Mr Clinton's charitable foundation.)

Mr Blair is as good a speaker as Mr Clinton, though his style is more formal. In America, where he is still widely admired, he should have substantial pulling power, at least for the next few years. But unlike Lady Thatcher, who also financed a foundation by making transatlantic speaking tours, he has no real political base there. He has the respect and gratitude of Republicans as a loyal and articulate ally, but they do not see him as a soulmate. Most Democrats, his natural allies, take a dim view of his support for the war and his perplexing friendship with Mr Bush.

There are problems with writing a book as well. He cannot publish a candid memoir of his premiership while Labour is still in office and Mr Brown is prime minister. If it were at all revelatory, as it would have to be to earn a decent advance, it would shred whatever is left of Mr Blair's credibility in Labour circles. So too would another potential money-making avenue, something discreetly lucrative in private equity. As a Tory, Sir John Major could get away with being on the Carlyle Group's payroll, but Mr Blair could expect disapproval if he took up similar work.

Just walk away

That raises the question of whether Mr Blair will remain engaged in domestic politics at all. He feels miffed that Mr Brown seems disinclined to take his advice about how Labour can win the next election. Mr Brown will almost certainly be as reluctant to have Mr Blair campaign for him as Al Gore was to let Mr Clinton loose. He won't want near him the flashy charmer he's had to play second fiddle to for all those years.

There is also a danger, whether Mr Blair intends it or not, that he will be a magnet for Brown-loathing former acolytes. The worst thing he could do would be to become, as Lady Thatcher promised she would, a back-seat driver. Mr Blair would never want to exert the kind of malign influence that Lady Thatcher self-indulgently exercised over her party, but it is nonetheless a risk to be avoided.

If Mr Blair is sensible, he will walk away from British politics, write his book later rather than sooner, set up a foundation and make lots of fairly well-paid speeches about climate change, world poverty and the need for a Middle East settlement. After all, Mr Clinton seems happy enough. But then he has a wife who could soon get him back in the White House and a party that adores him. Mr Blair's prospects are bleaker.

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Economist.com WORLD INTERNATIONAL

Education vouchers

Free to choose, and learn

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From The Economist print edition

AP

New research shows that parental choice raises standards—including for those who stay in public schools

FEW ideas in education are more controversial than vouchers—letting parents choose to educate their children wherever they wish at the taxpayer's expense. First suggested by Milton Friedman, an economist, in 1955, the principle is compellingly simple. The state pays; parents choose; schools compete; standards rise; everybody gains.

Simple, perhaps, but it has aroused predictable—and often fatal—opposition from the educational establishment. Letting parents choose where to educate their children is a silly idea; professionals know best. Co-operation, not competition, is the way to improve education for all. Vouchers would increase inequality because children who are hardest to teach would be left behind.

But these arguments are now succumbing to sheer weight of evidence. Voucher schemes are running in several different countries without ill-effects for social cohesion; those that use a lottery to hand out vouchers offer proof that recipients get a better education than those that do not.

Harry Patrinos, an education economist at the World Bank, cites a Colombian programme to broaden access to secondary schooling, known as PACES, a 1990s initiative that provided over 125,000 poor children with vouchers worth around half the cost of private secondary school. Crucially, there were more applicants than vouchers. The programme, which selected children by lottery, provided researchers with an almost perfect experiment, akin to the “pill-placebo” studies used to judge the efficacy of new medicines. The subsequent results show that the children who received vouchers were 15-20% more likely to finish secondary education, five percentage points less likely to repeat a grade, scored a bit better on scholastic tests and were much more likely to take college entrance exams.

Voucher programmes in several American states have been run along similar lines. Greg Forster, a statistician at the Friedman Foundation, a charity advocating universal vouchers, says there have been eight similar studies in America: seven showed statistically significant positive results for the lucky voucher winners; the eighth also showed positive results but was not designed well enough to count.

The voucher pupils did better even though the state spent less than it would have done had the children

been educated in normal state schools. American voucher schemes typically offer private schools around half of what the state would spend if the pupils stayed in public schools. The Colombian programme did not even set out to offer better schooling than was available in the state sector; the aim was simply to raise enrolment rates as quickly and cheaply as possible.

These results are important because they strip out other influences. Home, neighbourhood and natural ability all affect results more than which school a child attends. If the pupils who received vouchers differ from those who don't—perhaps simply by coming from the sort of go-getting family that elbows its way to the front of every queue—any effect might simply be the result of any number of other factors. But assigning the vouchers randomly guarded against this risk.

Opponents still argue that those who exercise choice will be the most able and committed, and by clustering themselves together in better schools they will abandon the weak and voiceless to languish in rotten ones. Some cite the example of Chile, where a universal voucher scheme that allows schools to charge top-up fees seems to have improved the education of the best-off most.

The strongest evidence against this criticism comes from Sweden, where parents are freer than those in almost any other country to spend as they wish the money the government allocates to educating their children. Sweeping education reforms in 1992 not only relaxed enrolment rules in the state sector, allowing students to attend schools outside their own municipality, but also let them take their state funding to private schools, including religious ones and those operating for profit. The only real restrictions imposed on private schools were that they must run their admissions on a first-come-first-served basis and promise not to charge top-up fees (most American voucher schemes impose similar conditions).

The result has been burgeoning variety and a breakneck expansion of the private sector. At the time of the reforms only around 1% of Swedish students were educated privately; now 10% are, and growth in private schooling continues unabated.

Anders Hultin of Kunskapsskolan, a chain of 26 Swedish schools founded by a venture capitalist in 1999 and now running at a profit, says its schools only rarely have to invoke the first-come-first-served rule—the chain has responded to demand by expanding so fast that parents keen to send their children to its schools usually get a place. So the private sector, by increasing the total number of places available, can ease the mad scramble for the best schools in the state sector (bureaucrats, by contrast, dislike paying for extra places in popular schools if there are vacancies in bad ones).

More evidence that choice can raise standards for all comes from Caroline Hoxby, an economist at Harvard University, who has shown that when American public schools must compete for their students with schools that accept vouchers, their performance improves. Swedish researchers say the same. It seems that those who work in state schools are just like everybody else: they do better when confronted by a bit of competition.

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The nuclear black market

Still in business

May 3rd 2007
From The Economist print edition

Abdul Qadeer Khan's network in Pakistan was slick but not unique

Get article background

TO BORROW a phrase from Donald Rumsfeld, George Bush's former defence secretary, when it comes to the illicit trade in bomb-useable nuclear materials and know-how, it is the unknown unknowns that keep people awake at night. The revelation in 2004 that Abdul Qadeer Khan, the man still feted in Pakistan as the father of its bomb, had turned his country's illicit procurement network into a private and hugely profitable supply chain, ready to sell all sorts of nuclear kit to others, was a huge blow to the global anti-proliferation effort. But exactly how far did the damage go?

Three years on, Western intelligence agencies are still not really sure who was the next big customer being lined up, after Iran, North Korea and Libya—though Syria is one suspect. Mr Khan's speciality was the wherewithal to enrich uranium (suitable, if enriched sufficiently, for the fissile core of a bomb); others in Pakistan did the real bomb-tinkering. But in Libya's case, he also threw in a 95%-complete proven weapon design—one that had earlier been supplied to Pakistan by China. Iran was given instructions on how to cast uranium metal into spheres—a tricky step in bomb-making—but denies it ever used them. It is the stuff of nightmares, but did any of this know-how also fall into terrorist hands?

AP

Khan dressed to kill

No one knows—or no one is telling. Last year Pakistan declared the case against Mr Khan, who had been pardoned but confined to one of his many homes, closed. But as a dossier of evidence on nuclear black markets published this week by the London-based International Institute for Strategic Studies points out, Mr Khan's business model wasn't unique. He was not the only one ever to tap scores of (witting or unwitting) suppliers in Europe, Africa and Asia through front companies, using middlemen and forged end-user certificates. But, most dangerously, he turned from buying to selling in an operation that became one-stop slick.

Before the first Gulf war in 1991, Iraq had pursued several different routes to building a bomb using its own extensive contacts—like Mr Khan, buying dual-use nuclear equipment in small enough quantities, or more suspicious items in bits and pieces, so as to evade lax export controls, especially in Europe. Iran, and to a lesser extent India, have their own separate procurement networks too. Though less well integrated, Iran's may by now even rival Mr Khan's in spread. Pakistan is still out there buying; so, it is thought, are others.

And all this despite American-led efforts to crack down on illicit shipments, UN efforts to get all countries to tighten export controls and a thickening web of international agreements, regulations and sanctions on banks and companies suspected of dodgy dealings. It does not help that, as Kenley Butler and Leonard Spector, two proliferation experts, point out in a recent issue of the *Bulletin of the Atomic Scientist*, of the dozens of businessmen, agents and scientists tapped by the Khan network, only three (two Germans and a Dutchman) have so far been convicted and sent to prison. None of Mr Khan's Pakistani collaborators is in jail either.

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World Bank

Wolfowitz agonistes

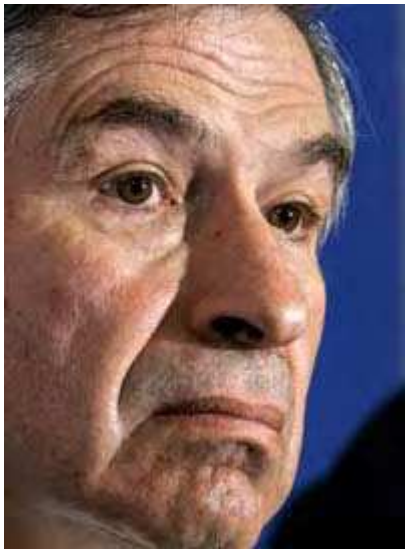
May 3rd 2007
From The Economist print edition

The World Bank's president will not go quietly

THE president of the World Bank wrongfoots many people who meet him. They expect a partisan ideologue and discover a personable intellectual. They brace themselves for a swashbuckler, but find a chinstroker. Both sides of Paul Wolfowitz's personality have been on show in the past month, as he has fought for his job in the face of growing outrage about the generous deal he secured for his girlfriend, Shaha Riza, who left her job at the bank after he was picked to lead it.

At the bank's spring meetings in April, he showed his introspective side, apologising for his handling of what he described as a “painful personal dilemma”. Then he sought to draw the poison circulating through the bank's staff by promising to look again at how he ran the place, relying less on a coterie of confidants and drawing more on the experience of career employees.

AP



Still plenty of fight left

But this week, as he gave his testimony at a hearing held by the bank's directors, it was once again easy to see him as the man who defied world opinion in plotting the Iraq war. He believes he is the victim of a “smear campaign” designed “to create a self-fulfilling prophecy that I am an ineffective leader.”

He lashed out at the bank's donor governments, several of whom think he should resign, for using the affair as an excuse to welsh on their promises to replenish the bank's coffers. He attacked the bank's directors, who he said must have known about the terms of Ms Riza's deal long before the crisis erupted. For them now to censure him would be “frankly hypocritical”, he said. Nor did the bank's staff entirely escape his scorn: Ms Riza is only one of hundreds, he pointed out, who take home more money than America's secretary of state.

Ad Melkert, chair of the ethics committee to which Mr Wolfowitz turned to handle the case, finds it “incomprehensible” that Mr Wolfowitz became so minutely involved in setting the terms of Ms Riza's departure. But Mr Wolfowitz seems to believe that the directors actively wanted him to get involved. Perhaps they were afraid of Ms Riza. She believes that one of the directors, presumably from the Middle East region on which she worked, had it in for her. “They were worried about lawsuits,” Mr Wolfowitz's lawyer says, “or her yelling about women's rights.” So they figured this was one “hot potato” best left in her boyfriend's hands, not theirs.

“Only when the cloud of these unfair and untrue charges is removed,” Mr Wolfowitz concluded, will it be possible to decide if he can be an “effective leader of the World Bank.” But to remove those charges, he seems willing to antagonise the very people—staff, shareholders, directors—who will determine his effectiveness in the future.

He may have to go. In the process he risks bringing some of the temple down with him.

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Road safety

Hit and run

May 3rd 2007
From The Economist print edition

Tarmac terror

Top causes of death among under-25s worldwide, 2002

Rank	1-4 years	5-9 years	10-14 years	15-19 years	20-24 years
1	Lower lung infections*	Lower lung infections*	Lower lung infections*	Road traffic injuries	HIV/AIDS
2	Childhood diseases	HIV/AIDS	Road traffic injuries	Self-inflicted injuries	Road traffic injuries
3	Diarrhoeal diseases	Road traffic injuries	Drowning	Maternity	Self-inflicted injuries
4	Malaria	Childhood diseases	HIV/AIDS	Lower lung infections*	Maternity
5	HIV/AIDS	Drowning	Tuberculosis	Interpersonal violence	Interpersonal violence

Source: WHO

*Eg, pneumonia, bronchitis

Road deaths are mostly avoidable. So why aren't they avoided?

WHAT do an Indian boy cycling to the corner shop, two young French children en route to visit their grandmother, and an 18-year-old Egyptian girl crossing the road to attend a birthday party have in common? All were killed in car crashes. About 1.2m people annually die on the roads; up to 50m are injured. Rates are highest in Africa and parts of the eastern Mediterranean. The World Health Organisation (WHO) calls it an “epidemic”. The impact on children and young people is especially sharp. Far from being “accidents”, though, most such incidents could be prevented. But they aren't.

Dangerous drivers in dodgy vehicles on ill-designed and dismally maintained roads make a lethal cocktail. Add to that fatalistic attitudes, inadequate emergency services, slack (or corrupt) law enforcement and an often startling array of human and motorised traffic moving at different speeds. Driving at night in many parts of Africa is near-suicidal. In some developing countries, diplomats and aid workers are barred from taking the wheel for their own safety.

But road crashes hurt the rich world too, both at home and abroad. The governor of New Jersey, Jon Corzine, left hospital on April 30th after being critically injured in a crash 18 days earlier (he has sheepishly admitted to not wearing a seatbelt). For otherwise healthy Americans travelling, the real carnage on the roads “far outweighs disease, terrorism and the other things people fear when they go abroad,” says Rochelle Sobel, who founded the Association for Safe International Road Travel after her son was killed in a bus crash in Turkey.

Aside from the human tragedy, there is a big economic impact. Acknowledging that certain statistics (on road injuries especially) should be treated with caution, the WHO nonetheless puts the cost at $518 billion globally per year. Lost productivity, hospital stays, crash investigations, higher insurance premiums and the like may have a combined cost of around 1-2% of GDP. The private sector suffers too. Some big oil companies lose more staff to road crashes than to industrial accidents.

Yet the policy prescriptions are simple and proven: enforced speed limits, helmet laws for those on two wheels, good road design and more driving tests. All too often, however, the political will is weak, awareness low and money short. Nonetheless, countries that do take road safety more seriously have shown that improvement is possible. Increased helmet use has had a dramatic impact in South-East Asia. And in France a concerted government campaign to promote road safety several years ago cut casualties by about one-fifth within a year, although they have crept up since due to slacker enforcement.

A coalition of public and private outfits—ranging from the World Bank and the Red Cross to the world's

biggest carmakers and oil companies—has launched a new campaign to encourage more politicians to follow in the footsteps of their Asian and French colleagues and take action. The stakes are high and getting higher: the WHO reckons road-crash casualties will increase by 67% from now until 2020, including a jump of 83% in low- and middle-income countries as more cars and lorries vie for road space with pedestrians and bicyclists. For developing countries, investing in safety now will avoid costly tragedy down the road.

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The world goes to town

May 3rd 2007
From The Economist print edition

Bridgeman

After this year the majority of people will live in cities. Human history will ever more emphatically become urban history, says John Grimond (interviewed here)

WHETHER you think the human story begins in a garden in Mesopotamia known as Eden, or more prosaically on the savannahs of present-day east Africa, it is clear that *Homo sapiens* did not start life as an urban creature. Man's habitat at the outset was dominated by the need to find food, and hunting and foraging were rural pursuits. Not until the end of the last ice age, around 11,000 years ago, did he start building anything that might be called a village, and by that time man had been around for about 120,000 years. It took another six millennia, to the days of classical antiquity, for cities of more than 100,000 people to develop. Even in 1800 only 3% of the world's population lived in cities. Sometime in the next few months, though, that proportion will pass the 50% mark, if it has not done so already. Wisely or not, *Homo sapiens* has become *Homo urbanus*.

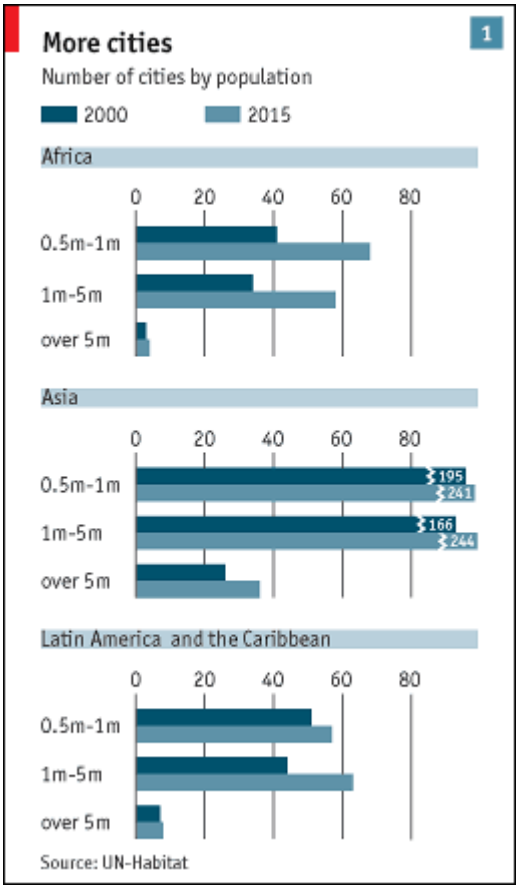
In terms of human history this may seem a welcome development. It would be contentious to say that nothing of consequence has ever come out of the countryside. The wheel was presumably a rural invention. Even city-dwellers need bread as well as circuses. And if Dr Johnson and Shelley were right to say that poets are the true legislators of mankind, then all those hills and lakes and other rural delights must be given credit for inspiring them.

But the rural contribution to human progress seems slight compared with the urban one. Cities' development is synonymous with human development. The first villages came with the emergence of agriculture and the domestication of animals: people no longer had to wander as they hunted and gathered but could instead draw together in settlements, allowing some to develop particular skills and all to live in greater safety from predators. After a while the farmers could produce surpluses, at least in good times, and the various products of the villagers—grain, meat, cloth, pots—could be exchanged. Around 2000BC metal tokens, the forerunners of coins, were produced as receipts for quantities of grain placed in granaries. Not coincidentally, cities began to take shape at about the same time.

They did so, first, in the Fertile Crescent, the sweep of productive land that ran through Iraq, Syria, Jordan and Palestine, from which Jericho, Ur, Nineveh and Babylon (pictured above) would emerge. In time came other cities in other places: Harappa and Mohenjodaro in the Indus valley, Memphis and Thebes in Egypt, Yin and Shang cities in China, Mycenae in Greece, Knossos in Crete, Ugarit in Syria and, most spectacularly, Rome, the first great metropolis, which boasted, at its zenith in the third century AD, a population of more than 1m people.

Living together meant security. But people also drew together for

the practical advantages of being in a particular place: by a river or spring, on a defensible hill or peninsula, next to an estuary or other source of food. Also important, argue historians, was a settlement's capacity to draw people to it as a meeting-place, often for sacred or spiritual purposes. Graves, groves, even caves might become shrines or places for ceremonies and rituals, to which people would make a pilgrimage. Man did not live by bread alone.



But bread, in the broadest sense, was important. People came to cities not just to worship but to trade—the shrine was often the market, too—and the goods they bought and sold were not just farm products but the manufactures of urban artisans and skilled workers. The city became a centre of exchange, both of goods and of ideas, and so it also became a centre of learning, innovation and sophistication.

This was so not just in the Fertile Crescent but, over the centuries, in Alexandria and Amsterdam, Cambay and Constantinople, London and Lisbon, Teotihuacán and Tenochtitlán. It was in the city that man was liberated from the tyranny of the soil and could develop skills, learn from other people, study, teach and develop the social arts that made country folk seem bumpkins. *Homo urbanus* did not just live in a town: he was urbane.

Cities were much more than all of this, of course, and they were not all the same. As they developed, some were most notable for their religious role (latter-day Rome), as the hub of an empire (Constantinople, Vijayanagara), as centres of administration (Beijing), political development (Florence), learning (Bologna, Fez), commerce (Hamburg) or a special product (Toledo). Some flourished, some died, their longevity depending on factors as varied as conquest, plague, misgovernment or economic collapse.

Technology turns even-handed

Whatever the particular circumstances of a city, though, its vigour was likely to be affected by technological change. Just as it was improvements in farming that brought about the surpluses that made possible the first fixed settlements, so it was improvements in transport that made possible the development of trade on which the prosperity of so many cities depended. Other technological changes made it possible to survive in a city. The Romans, for instance, constructed aqueducts to bring fresh water to their towns and sewers to provide sanitation.

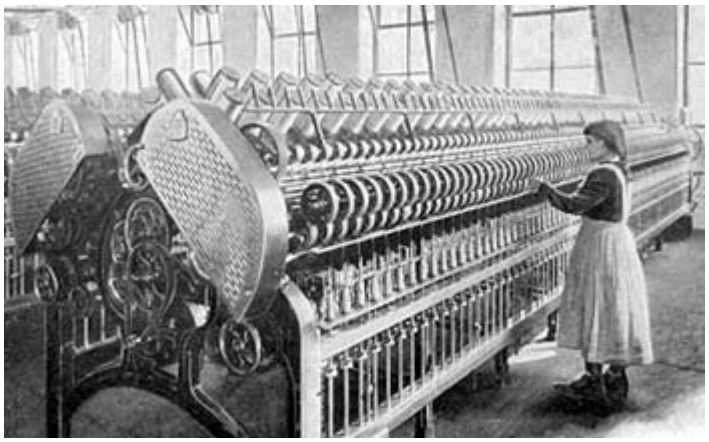
But only the rich benefited. Most Romans, and many city-dwellers throughout history, lived in squalor, and many died of it. Towns were crowded and insanitary; people were often malnourished; and disease spread fast. Though cities grew in size and number for long periods, they could decline and fall, too. Between 1000 and 1300 Europe's urban population more than doubled, to about 70m (thanks partly to a new system of crop rotation, made possible by better tools). Then, with the Black Death, it fell by a quarter. Country people died too, but the city-dwellers were especially vulnerable. Their health depended above all on clean water and sanitation, which few had, and cheap soap and medicines, which had yet to be invented.

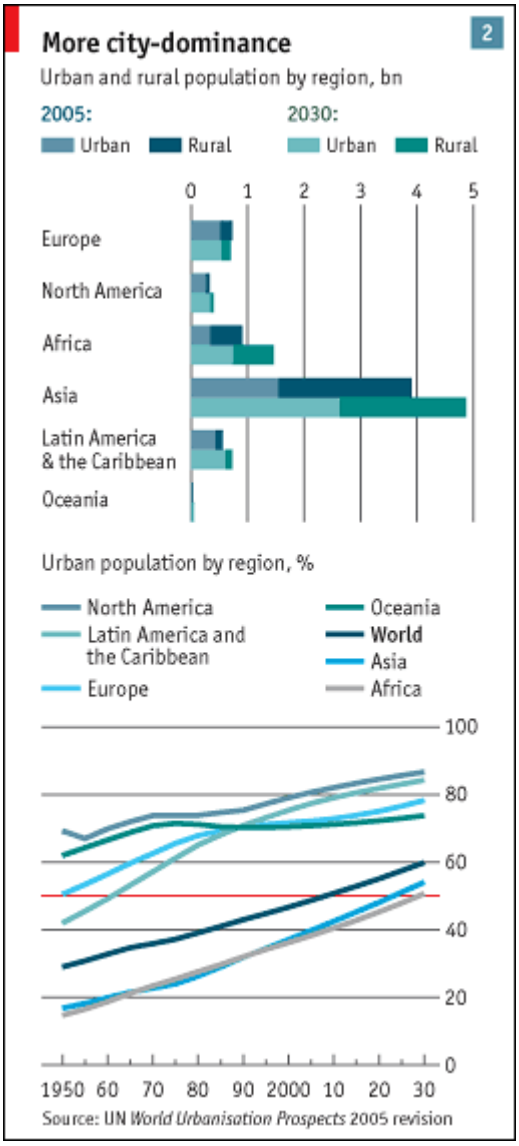
Not surprisingly, the next big change in the development of the city also turned on a leap in technology: the invention of engines and manufacturing machinery. The Industrial Revolution did nothing at first to make urban life easier, but it did provide jobs—lots of them. With the new factories of the industrial age that began in the late 18th century was born an entirely new urban era. Peasants left the land in their multitudes to live in new cities,

first in the north of England, then all over Europe and North America. By 1900, 13% of the world's population had become urban.

The latest leap, from 13% to 50% in just 107 years, also owes something to science and technology: improvements in medicine, coupled with new knowledge about ways to avoid disease, have enabled more and more people to live together without succumbing as once they did to diarrhoea, tuberculosis, cholera and other pestilences. The same developments, however, have similarly lengthened lives in the countryside, leading to a huge increase in rural population. Human ingenuity has not matched this increase with commensurate growth in rural prosperity. As a result, ever more villagers have been upping sticks to seek a better life in the city.

Mary Evans





The sheer scale and speed of the current urban expansion make it unlike any of the big changes that have punctuated urban history. It mostly consists of poor people migrating in unprecedented numbers, and then producing babies on a similarly unprecedented scale. It is thus largely a phenomenon of poor and middle-income countries; the rich world has put most of its urbanisation behind it.

In poor countries, though, the trend is set to continue. The United Nations forecasts that today's urban population of 3.2 billion will rise to nearly 5 billion by 2030, when three out of five people will live in cities. The increase will be most dramatic in the poorest and least-urbanised continents, Asia and Africa. They are the ones least able to cope. Already over 90% of the urban population of Ethiopia, Malawi and Uganda, three of the world's most rural countries, live in slums.

Within ten years the world will have nearly 500 cities of more than 1m people. Most of the newcomers will be absorbed in a metropolis of up to 5m people. But some will live in a megacity, defined as home to 10m or more inhabitants. In 1950 only New York and Tokyo could claim to be as big, but by 2020, says the UN, nine cities—Delhi, Dhaka, Jakarta, Lagos, Mexico City, Mumbai, New York, São Paulo and Tokyo—will have more than 20m inhabitants. Greater Tokyo already has 35m, more than the entire population of Canada.

Corbis

The Megalopolis of the ancient world was in Arcadia, a part of Greece cited by Virgil as a model of happy, rural simplicity. The cities that now go by that generic name are far from Arcadian. Successful these places may be, if success is measured by growth of population. But most are in poor countries and many, if not most, of their inhabitants live in slums.

In the rich world, though, the city is undergoing very different changes. Many of the new towns that flourished in the Industrial Revolution and the manufacturing era that followed have been losing population. Even New York, for so long the epitome of urban sophistication, went through a bad patch in the 1970s. Some cities retain their role as administrative centres, by virtue of their political status. Some are still trading hubs, by virtue of their geographical position. Some endure simply because they have reached an equilibrium. But others struggle.

Of the traditional reasons for urban living, several (the presence of the shrine, the proximity of food) have lost their importance. Some of what the city provided (shops, factories) can now be offered in suburban malls or industrial parks—or in low-cost urban rivals in the developing world. Security, once one of the main reasons for huddling together, is often now more elusive in the druggy streets of the metropolis than in the exurbs. And technology, which has usually favoured urban progress, now enables people to work in rural bliss on home computers. No wonder so many cities find that in order to flourish they have to reinvent themselves.

Nearly all rich-country cities, whether prospering or declining, worry about transport, pollution, energy, pockets of poverty and so on. These offer troubles a-plenty. But they are of a different order to those faced by poor-country cities, whose problems are vastly greater and resources vastly smaller. While rich cities fret over a relatively modest ebb and flow of population, poor cities must cope with a tidal wave of migrants.

So the history of the city has come to a fork. This survey will explore the diverging paths of rich and poor, and the prospects for the city if the developing world can one day clamber out of poverty. First, though, it looks at the urban reality awaiting the Dick Whittingtons of the 21st century.

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The strange allure of the slums

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People prefer urban squalor to rural hopelessness

NO CONTINENT is urbanising faster than Africa. Why? One answer is partly statistical: Africa has been the slowest to get started. Another is that parts of Africa, such as the Sahel, have been affected recently by severe climate change, making marginal land unfarmable. And in countries like Angola and Congo years of fighting have propelled millions to the cities. But a fuller explanation is needed. A look at Nairobi provides some answers, and throws up more questions.

For many years the biggest city in east Africa, where human life seems to have begun, was not a bad advertisement for the urban condition. As the capital of Kenya, Nairobi had the subdued bustle of an administrative centre, some industry, hotels for tourists on their way to or from wildlife safaris, lots of greenery and even a small forest. The population in 1960 was about 250,000. Today the forest remains, but, with 3m people, Nairobi has lost much of its charm. The traffic is awful, as is the crime, and the superlatives are usually reserved for Kibera, which is supposedly Africa's largest, densest and poorest slum.

It probably is not. Luanda, Kinshasa and Lagos, the world's fastest-growing megacity, may all have slums to match Kibera, whose population is put at anything from 600,000 to 1.2m, depending both on the estimator and on the time of year, many of its inhabitants being seasonal migrants. What makes Kibera unusual is, first, that its 256 hectares (630 acres) sit right in the middle of Nairobi and, second, that it finds itself on the doorstep of Habitat, the UN's agency for towns and cities, which is based in a campus of bucolic tranquillity not far away. Accordingly, Kibera gets no end of attention from outsiders, whether governments throwing money at it, NGOs engaged in mapping and studying it, or film stars shooting “The Constant Gardener”. Ban Ki-moon paid it a visit within a month of becoming the UN's secretary-general this year.

Most of what makes Kibera interesting, though, is what it shares with other African slums. The density (shacks packed so tightly that many are accessible only on foot); the dust (in the dry seasons) and the mud (when it rains); the squalor (you often have to pick your way through streams of black ooze); the hazards (low eaves of jagged corrugated iron); and the litter, especially the plastic (Kibera's women, lacking sanitation and fearing robbery or rape if they risk the unlit pathways to the latrines, resort at night to the “flying toilet”, a polythene bag to be cast from their doorway, much as chamber pots were emptied into the street below in pre-plumbing Edinburgh). Most striking of all, to those inured to the sight of such places through photography, is the smell. With piles of human faeces littering the ground and sewage running freely, the stench is ever-present.

Not much, but it's home

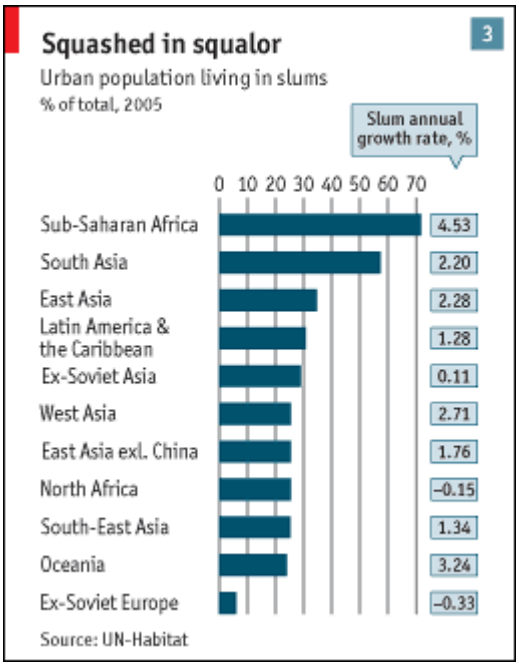
Striking, too, though, is the apparent contentment with which the inhabitants accept their lot. It falls

short of cheerfulness: tension is constant in Kibera, and small incidents can quickly turn nasty. But most people are busy getting on with life. Churches abound, and schools too. Children play in the dirt or on the railway tracks that bisect the slum. Stall-holders sell their goods. Men, ragged or smartly dressed in dark suits, clean their teeth wherever they can spit.

Indoors, things can be more wretched. On the northern slope of the area known as Soweto East, Josephine Kadenyi lives in a shack three metres square (ten feet by ten feet). It consists of one room, with a curtain dividing it. It has no electricity and no sanitation. Outside is a vast heap of litter and plastic bags used by children as a lavatory. Just below that, 14 thin water pipes emerge from the ground, bound with sticky tape in a half-successful effort to stem the leaks. Sewage runs alongside. Mrs Kadenyi makes her living by selling uncontaminated water and looking after the disabled child of a neighbour.

In NGO-speak, Kibera is an “informal” settlement. That means it does not officially exist. The government provides nothing. If there are schools or latrines or washrooms, they are privately run (it costs three shillings, about four American cents, to use the latrine). The government provides no basic services, no schools, no hospital, no clinics, no running water, no lavatories. It does, however, own nearly all the land, so if you want to put up a shack, you must go to the chief, a civil servant in the provincial government, and get his permission. For a consideration, perhaps 5,000 shillings (about $70), this can be obtained, but you receive no piece of paper, merely an oral consent.

Most shacks are in fact owned by “landlords”, some of them descended from Nubians rewarded by the British for their military service in the first world war with the right of abode in Kibera. They now jostle with others who have established, through custom, corruption or force, the right to put up a “unit”. These are then rented out to tenants, who have no rights of any kind. The cost of erecting a shack is recouped within a year or two.



Daniel arap Moi, who served as president of Kenya from 1978 to 2002, has long owned a house that abuts Kibera. Like almost all other ministers of his as well as the present government, he does his best to ignore the slum next door. Kenyan politicians seldom if ever visit it, or indeed the 200 or so smaller “informal settlements” in Nairobi, even though 60% of the capital's population live in these slums. Several politicians are, however, reputed to be landlords, as are many civil servants and other local worthies.

Why does the government not bulldoze Kibera and rehouse everyone in multi-storey flats on the same site? Oh, that would be very complicated, the questioner is told. The difficulties abound, apparently, and they are not all financial. The real reason is that lots of people make lots of money from the slums, providing the services the state does not provide and extracting the bribes that anyone living in an illegal city has to pay just to survive. Moreover, the slums provide the cheap labour that enables the city to operate. The status quo suits the authorities quite nicely.

And what about the people who live in Kibera? Strangely, it suits them too, up to a point anyway. Asked whether she wouldn't prefer to go back to the village in western Kenya that she left six years ago, Mrs Kadenyi says, “Yes, of course. But what would I do back home?” What indeed? Kenya's average rate of population growth for the past 30 years has been over 3% a year, putting enormous pressure on the land. With mouths to feed and no prospect of a job in the countryside, the rural poor head for the cities. There at least they have some hope of employment.

Hope is all it is for most of them, at least in the formal economy. But hope is what keeps them in places like Kibera. It may be a dump, but it is central. This means that anyone lucky enough to have a job, either in the offices or houses of the city, or in the industrial area nearby, can walk to work. Those who have to peddle goods or search for casual labour are equally well placed. Being able to avoid a time-consuming and expensive commute is a great benefit.

Still, centrality does not have to mean squalor. In many cities the slums are on the outskirts, by the airport or somewhere out of sight. But the people of Kibera are suspicious of efforts to improve their housing. In the 1980s they saw some of their land taken for new flats, 400 in all. No one in Kibera

benefited, says Raphael Handa, a clergyman who heads a community committee set up with support from Habitat and the government; all the tenants were brought in from outside.

Same story in Mumbai

The people of Kibera are increasingly organised, and increasingly determined to be involved in any plans to spruce up their slum. In this they are typical of their counterparts elsewhere. But in other respects, do Africa's new cities, slums and slum-dwellers resemble those in other continents? An ocean away, Mumbai offers plenty of parallels.

Between 14m and 18m people live in Mumbai, according to where you draw the city limits, maybe half of them in slums. That is about the same proportion as in Nairobi. But as you drive in from the airport or along P. D'Mello Road by the port, you quickly see that these slums are classy. Many of the shacks on the pavements are double-decked, and beds, chairs, goats and children spill on to the street, where head-carriers—porters with straight backs—wash themselves from buckets.

The peninsula of modern Mumbai was, 350 years ago, seven islands, which have gradually been joined and expanded by landfills to make up 65 square kilometres of land shaped a bit like a chilli pepper. The city is hot in every sense but, more seriously, it is crowded, and room for expansion is limited. Until 60 years ago newcomers to Mumbai tended to settle just outside, at Dharavi, where no rules applied and so sheep could be slaughtered and hides tanned. Over the years ever more people came and squatted, and the city, India's financial and commercial capital, expanded. Today about 600,000 people live in Dharavi's 210 hectares, which now lie in the heart of Mumbai. Dharavi's boast is that it is the biggest slum in Asia.

Conditions here are similar to Kibera's: miserable housing, no security of tenure, contaminated water for the 40% lucky enough to have it piped, mud for four months out of 12, bribes needed for a blind eye to be turned to an illegal electricity connection, one lavatory for 800 people, the stink of sewage, and so on.

People come here for familiar reasons, too. Life is grindingly hard for many rural Indians. Agriculture has recently been growing at only 2% a year, while the economy as a whole booms at over 8%. Crops fail, and many farmers are so deeply in debt that they are little more than bonded labourers. Suicide is common: in just one region of Maharashtra, the state of which Mumbai is the capital, 1,450 farmers killed themselves last year. In particular, many *dalits*, members of the lowest Hindu caste, see no hope of betterment amid the harsh conservatism of rural India. Their only hope is to move to the cities. It is an echo of what happened in medieval Europe, when moving to a city was for many an escape from serfdom. *Stadtluft macht frei* (City air sets you free), said the Germans.

Beats commuting, too

Life may indeed be a bit easier in a city. Jockin Arputham, who has lived in Mumbai's slums since 1963, when he was 16, makes Dharavi sound almost romantic. “You don't have to work very hard to make a living,” he says. “You can collect and sell garbage. You can always ask people for food, and to sleep somewhere.” He made his bed on someone's verandah for 12 years. Then he founded an organisation for the inhabitants of India's slums. Now he is also head of the international federation of shack- and slum-dwellers.

People in Dharavi look cheerful. Everyone is busy and many are reasonably well off. Some live in flats and own television sets and other electronic gadgets. Among slum-dwellers they are fortunate, for, like Kibera, Dharavi is central, close not just to the diamond market and the financial centre but also the airport, beyond which most Mumbaikars live. Many therefore spend hours getting to and from work.

About 7m commuters make their journey to and from the bottom of the peninsula each day. The roads are jammed and the trains overflowing: 700 passengers are crammed into (or clinging onto) carriages meant for 120. About 3,000 people are killed on the tracks each year.

Panos

Even Diogenes would despair

Some people from the slums have been happily resettled farther out but close to a railway, which gives them ready access to their work. Others are benefiting from the citizens' groups that have taken root. Mr Arputham's National Slum-Dwellers Association, for instance, is allied to a co-operative through which some 250,000 people, nearly all of them women, regularly put money aside for their common good. And governments, donors and international agencies find the two organisations to be reliable partners if they want to improve slum life.

Mr Arputham got involved in community action in 1975, when the authorities decided to clear the slum in which he lived to make way for the Atomic Energy Department. He failed to stop the evictions, but learnt that people affected by such clearance schemes had to organise if they were to have any influence. Plain confrontation is much less successful, says Celine d'Cruz, who works with Mumbai's pavement-dwellers, than informed argument, backed by statistics, surveys and the involvement of lots of potential victims.

Thanks to the efforts of such groups and consequent changes in the law, there are fewer evictions nowadays. The controversies, instead, surround efforts to improve the slums. The idea now in vogue is to bring in a developer, let him put up multi-storey buildings, use some of the flats to rehouse those living on the site and sell others at a profit. Slum-dwellers often have enough money to pay rent, and such deals remove a financial burden from the local authority or landlord.

But the scheme is controversial. Some slum-dwellers are too poor to pay even a service charge, which will be levied in return for water and the use of a lift, even if the flats are rent-free. Others complain that only those who were resident before 1995 will be eligible for rehousing, leaving newer arrivals with nowhere to go. Mr Arputham, who is not against development, says the chosen developer has no plans for a sewer and will undoubtedly make 25,000 families homeless.

Others worry that such schemes will allow corrupt officials and corrupt developers to make huge fortunes at the expense of the poor. Under the headline “Mumbai's great slum robbery”, the *Hindustan Times* recently published details of a police investigation involving, it was claimed, pay-offs to officials to free the builders' hands. Shirish Patel, a civil engineer with a long-standing concern for planning the city, believes that there are simply too many people in Dharavi to allow a developer to rehouse everyone and at the same time make an honest profit.

More generally, he believes that both government and developers have a strong interest in keeping property prices high—and Mumbai's rank among the highest in the world. Vijay Mahajan, of Bombay First, a businessmen's group formed to promote and improve the city, agrees. The higher the prices, the more builders can charge. As for the politicians, they profit from an invisible line that runs directly from slumlord to local politician to state minister to his boss. Money runs up along this line, and so do votes. In return, the government lets the slums remain undemolished. It is a pay-and-stay arrangement.

Nairobi and Mumbai certainly have lots in common. Luckily, other places have fared better. The outlook is not all bleak.

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A cul-de-sac of poverty

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Alamy

Successful cities need economic growth

THE English men and women who fled their farms and villages in the late 18th century to seek a better life in the factories of burgeoning Manchester, Leeds and Bradford found no streets paved with gold. Rather, they encountered disease, malnutrition and often brutality. In his book “The City”, Joel Kotkin cites the West Indian slave-holder who, on a visit to Bradford, could not believe that anyone could “be so cruel as to require a child of nine to work 12½ hours a day.” Yet by 1850, says Mr Kotkin, this time quoting Alexis de Tocqueville, there was in Britain “at every step...something to make the tourist's heart leap.” Social activists and enlightened professionals had brought about legislative reforms; and the benefits of mechanisation, plus wages pushed up by trade unions, had enabled the poor to start buying the sort of cheap goods they were helping to make. Cities now seemed almost heroic. Can today's urban poor expect to see a similar transformation?

In many places, such as India, says Eduardo Lopez-Moreno, head of the UN's Global Urban Observatory, new migrants to the towns are no better off than they were in the country. And in poorer nations generally the proportion of urban poor is actually increasing faster than the rate of urbanisation. But the hope that keeps poor people in cities is not always vain. Asia shows that even a region in which 40% of the inhabitants already live in cities, and which is urbanising almost as fast as Africa, is not condemned to misery for ever.

In the early 1970s over half of Asians were poor; they could expect to live, on average, to an age of only 48 years; and two-fifths of adults were illiterate. Today the proportion of poor people is about a quarter, life expectancy has risen to 69 years, and about 70% can read and write. That does not mean that everyone has benefited. Far from it: Asia still accounts for two-thirds of the world's poor, of whom 250m are in cities. But even the urban poor of South Asia, who have been largely by-passed by the growth that has lifted East Asia, have reason to hope for better times.

Not much of it is coming the way it did in the 19th century, though. It is true that activists and donors are beginning to take an interest in cities, and ideas are now circulating about upgrading slums and attacking urban poverty. Some of these concern the problems of illegal squatting, which are now well known. With no title to your shack you have no incentive to improve it, no way to insure it, no collateral with which to secure a loan, no address with which to become an official citizen, let alone to open a bank account: you are locked in poverty. Yet there is money in slums, and enterprise—and numbers.

Getting it together

Many ideas to unlock the enterprise turn on using the numbers. This can be done, say, by encouraging a majority of the local residents to form a savings group or a co-operative and ask the municipality to

grant collective development rights, some of which may be used in the slum and some sold off. Other community groups, under a suitable leader, may be able to negotiate with a commercial lender and then hire a project manager to oversee the rehousing of several people. Or a group of co-ops may hire a financial intermediary.

A more top-down approach is to ask governments to issue land certificates indicating a range of personal rights rather than strict title deeds. This has worked well on a small scale in a dozen African countries. Vietnam has successfully brought in the concept of private leasehold. Other schemes involve a donor accepting the responsibility of upgrading a slum in return for a sovereign debt.

All these ideas have their merits and should be copied more widely. But the main conclusion to be drawn from the success stories is that few poor people in cities will grow richer if their local economy is not growing, and few local economies will prosper if the national economy is not also prospering. Cities often play a disproportionate role in the national economy. Mumbai accounts for 40% of India's tax revenues, for example; Tokyo accounts for a third of Japan's GDP; and over three-quarters of Senegal's industrial production comes from around Dakar. In absolute terms, too, cities can be huge wealth creators. Seoul's economy equalled the whole of Argentina's in the late 1990s, and Mexico City's equalled that of Thailand.

This is not to say that all cities will prosper in step with each other, or with the nation as a whole. In both rich and poor countries, some cities may flourish as others decline. Several metropolitan areas in America's Great Lakes region—never mind the cities at their heart, such as Buffalo, Cleveland and Pittsburgh—have long been losing inhabitants, their population is ageing and income growth has lagged behind rivals in other parts of the country.

Even Mumbai's economy, successful though it seems, has been growing less fast than the economies of such places as Bengalooru (Bangalore), Chennai and Hyderabad. Indeed, in 2003 Mumbai's growth rate was behind Maharashtra's, which was behind India's. Sanjay Ubale, the state official in charge of co-ordinating all the plans to develop the city, says that $10 billion of public and private money is being spent on infrastructure projects. That will be welcome, but surely not enough if Mumbai is to realise its ambition to overtake Hong Kong and Singapore as a financial centre, and to become a “world-class city”.

In some respects cities compete with each other, even across borders. Fierce competition now takes place within India to win, say, a new BMW plant or a Nokia special economic zone. Similarly, Hong Kong and Shanghai vie to call themselves China's financial capital, just as New York and London vie for the world title. The busiest stock exchange may mean the lion's share of the market in financial services, and the jobs that go with it.

In general, though, one city's success does not mean another's failure. Only when they are competing for finite resources or a specific prize, an investment or the Olympic games, say, does one city stand to gain at another's expense. Most cities must therefore hope that they can benefit from a sound national economic policy. Even in an expanding economy, the benefits of growth do not always trickle down to the slums very fast. That is why other policies are needed, too. But in places where growth has been negative, notably Africa, it is well nigh impossible to eradicate slums. Even so, life for the urban poor can be improved.

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Thronged, creaking and filthy

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Corbis

Bursting cities, bust infrastructure

IT IS hard to say exactly what makes for a successful city. Some can be polluted and alive, others spotless and sterile. Still, no one wants to live in a city that is impossibly congested, suffers constant blackouts and frequent floods, chops down its trees, concretes over its parks, has awful schools and hospitals, is devoid of any buildings of charm or character and is governed by corrupt politicians and incompetent civil servants. Yet many people have to.

Transport can sometimes define the form of a city, as river traffic helped shape Tudor London's Thames-side expansion, and the freeways that replaced the old light railways of Los Angeles are both the arteries and the bone structure of the modern city. Transport, too, is often the most obvious of a city's shortcomings. From Beijing to Tehran to São Paulo, streets are choked with traffic and pedestrians are choking with fumes.

The solution to this is clear: good public transport. In some places that is recognised. In southern Brazil, Curitiba, the capital of Paraná state, has been trying to keep its transport system abreast of an expanding city's needs since the 1940s, when the town got its first urban plan. In the 1970s a busy commercial street was pedestrianised—a first for Brazil—and elsewhere buses and local traffic were made to run down the centre of broad roads while faster traffic whizzed one way down either side. In the 1980s the city went increasingly green, creating parks, extending the transport system and bringing in multi-carriage buses. The transport authority collected the fares and paid the bus operator. Curitiba's buses achieved average speeds above 20kph, carrying 12,000 passengers at peak hours. Rail transport generally does better, but the buses were popular and cheap (though they have recently been losing market share).

Other Brazilian cities have copied Curitiba, but without much success. Their failure is blamed on the imperfections of democracy: the Curitiban reforms were pushed through with military backing during a dictatorship that ended in 1985, since when other cities' efforts have been stymied by the lobbying of the affected bus companies. This has always ensured that some crucial element of the scheme was missing. Yet in Quito, the capital of Ecuador, and Bogotá, that of Colombia, the Curitiba bus system has worked well, and it has been copied successfully from Jakarta to Brisbane and Ottawa to Rouen.

In most other places, though, people who can afford cars seem to prefer them. Public transport is often slow, unreliable and unpleasant. Edward Glaeser, of Harvard University, reckons that the average American commuter's journey takes 48 minutes by public transport but only 24 minutes by car. No wonder so many Americans drive to work. In Tehran petrol is heavily subsidised, so taxis are cheap, and the new metro is still far from complete. Karachi is probably the biggest city in the world without a rail network of any kind, and the buses are overloaded. Those who have the option mostly drive.

Probably the only way to get people out of their cars is to hit their pockets. Singapore was the first city to introduce road charges, in 1975. London and Oslo have followed suit (Stockholm will join them), with some success in reducing traffic. But punitive charges will work only if the displaced drivers can switch to a decent public transport system. Often they cannot.

Some cities are trying to build rail systems, but many seem, even so, to be doomed to reliance on buses. Manila's new railway carries only 8% of the traffic; Bangkok's smart new sky train and metro only 3%; and Kolkata's metro even less. Happy the people of Copenhagen, two-fifths of whom bicycle to work.

A half-way house for many is a scooter or motorbike. Yet even these are under threat. Guangzhou, the richest city in mainland China and therefore a magnet for migrants, has recently banned mopeds and motorbikes, supposedly to reduce congestion and crime but in reality to discourage job-seeking incomers. Neither objective is likely to be achieved.

A greater folly, however, can be seen in those Chinese cities that are responding to clogged roads by building carriageways one above the other. Such places would do better to emulate Seoul, whose last mayor tore down an elevated freeway in the middle of the city and thus restored to view a long-buried river seen by the locals as a source of spiritual life. That, and his improvements to the public-transport system, have done wonders for his popularity. He now hopes to become president.

Alamy

Green exercise machines

Dirty water, fetid air

Cities can be great levellers: congested streets and immobile trains hit rich and poor alike. Similarly, when Hurricane Katrina swept across America's Gulf coast on August 29th 2005, deluging New Orleans and making more than 1m people homeless, the world realised that nature could smite a rich country as easily as a poor one.

An equally sobering lesson, though, had come just a month earlier, on July 26th, when 994mm (over three feet) of rain had fallen in 24 hours on Mumbai. A third of the city was submerged, hundreds of people lost their lives and thousands of homes were destroyed. The two events should give pause for thought, for the new urge to urbanise has been matched not just by global warming but by another mass movement: a dash for the coast.

Eyevine

An ever-more-regular event

Two-fifths of the world's cities of 1m-10m people, and 15 of the world's 20 megacities, lie on or near a coast, where many are at risk from flooding. Their vulnerability is likely to increase. London built a barrier in the 1980s to save it from the floods that occasionally saturated parts of the city when high tides and storms coincided. The barrier was raised only 27 times between 1986 and 1996. In the next

ten years it went up 66 times. Forecasters say that, thanks to the rising sea level, it will go up and down ever more frequently, and may be overwhelmed by 2030.

In most cities, rich or poor, it is the less well off who are most at risk from floods and natural disasters. It was the poor of New Orleans, nearly a third of the population, who lived in the lowest-lying parts of the city and suffered most from Katrina's wrath. Similarly, it was the urban poor of Honduras and its neighbours who were smitten hardest by Hurricane Mitch in 1998. And it is the people of the slums more widely in Latin America who are most vulnerable: floods often sweep through the *favelas* of São Paulo, half of which stand on river banks.

In some places too little water, not too much, is the problem. China's thirst for industry and irrigation has combined with climate change to drain the aquifers, some of which hold fossil water that has lain undisturbed for millennia. Droughts seem to be ever more frequent in northern China, and southern cities such as Guangzhou are also affected. Rivers are drying up: the Yellow river now flows to the sea for only a few weeks a year. And the rain, when it comes, is intensely acid. To make matters worse, the glaciers on which both China and India partly depend are melting. Any benefits from extra water supplies will be short-term, and vitiated by floods.

No wonder water is expensive, especially for the poor. Those slum-dwellers who buy their water by the litre, whether they live in Kibera, Dharavi or a Brazilian *favela*, will pay more for it than their neighbours in richer districts who get it from a tap. And the water that flushes sewers is literally beyond them (in Dharavi it is actually below them: a sewer lies under the slum, but no one can afford a connection).

Only three-fifths of the people of Shanghai live in buildings connected to a sewer, and barely 3% of the inhabitants of Jakarta have access to the main drains. Most cities in the developing world discharge their sewage untreated into rivers or the sea. Delhi draws three-quarters of its drinking water from the Yamuna river, into which the city dumps quantities of sewage, almost all of it untreated, to join a cocktail of farm chemicals and industrial effluents, including arsenic.

Human ingenuity allows some people to make use of pollution. Waves of gleaners sift the sweepings of Hanoi's streets, just as children pick over the rubbish of Maputo's main tip. Every city in Asia and Latin America has an industry based on gathering up old cardboard boxes. Recycling in Mumbai is so sophisticated that the guts of dead animals are said to be collected and turned into medical sutures.

But most pollution has a cost. Dirty air, says the UN, causes the premature death of 400,000 Chinese each year. The diseases caused or carried by contaminated water kill children the world over in huge numbers. Solid rubbish is also bad for you when you literally live on top of it, as do the people of Korogocho, a Nairobi slum. And even recycling can be lethal. In China and India the destitute dismantlers of computers and electronic goods, many of which are shipped from rich countries, are often exposed to toxins.

With people pouring into the cities and cars pouring on to the roads—only 1% of Chinese own a car as yet—and with richer countries exporting many of their most polluting industries, the outlook for the environment looks grim. Yet some places have done better than others.

Bangkok provides an example of how to reduce air pollution. Fifteen years ago it was a byword for foul air, a city where the traffic stood still and anyone tempted to resort to a *tuk-tuk*, the local version of the Indian open-sided auto-rickshaw, risked asphyxiation. It was much like Beijing, São Paulo or Mexico City, where views are usually seen only in pictures and the atmosphere can be cut with a knife.

In Bangkok, though, a group of city officials, with notably little support from a succession of ephemeral governments, has reduced the air-pollution levels by 20-50%, depending on the measure, despite an increase in vehicles of 40% in the past ten years alone. They have done so by imposing fiercer pollution controls on cars, raising taxes on two-stroke motorbikes and making all taxis run on (subsidised) liquefied natural gas.

Natural gas has also benefited Delhi, whose air has become significantly fresher since 2002, when the Supreme Court ordered

its buses to convert to gas. Delhi's air is today half as polluted as it was in 1994, and recent figures suggest that Beijing's is now dirtier. China as a whole has 16 of the world's 20 most polluted cities. But the country is starting, with varying degrees of urgency, to realise that green investment often makes sense. First, it is coming to see that the costs of inaction are huge: the UN believes environmental degradation robs the country of 12% of potential GDP. Second, it is increasingly persuaded that spending may pay off. The World Bank estimates, for example, that the $3.15 billion spent in China on flood control since the 1960s has averted losses of $12 billion.

In any event, China now proudly points to developments like Dongtan, just north of Shanghai, which is designed to be the world's first sustainable city. The claims for it may be extravagant: the city will, it is said, be self-sufficient in energy and water, green with parks, silent with electric cars and utterly in harmony with nature. But the ambitions are laudable.

Alamy

In other parts of China, too, signs of sensitivity to the environment are growing. Shanghai, Chongqing, Fatou and Xian joined with their collaborator, Denmark, to show off a series of urban innovations at the Venice architecture Biennale last year. Shenzen, whose extraordinary economic boom has been partly built on contempt for the environment, is now regarded within China as a place not to emulate. And even in much smaller cities a new environmentalism is on display: in Riuli, a free-and-easy way station on the Myanmar border, solar panels are sold almost as commonly as sex.

Richer countries are experimenting in other ways. Some cities are encouraging green buildings. Melbourne's council has commissioned “a landmark ecologically sustainable building” air-conditioned by a natural “breathing system”, which draws in cool air at night to flush out the previous day's heat, and uses vegetation to filter outside air. Chicago's mayor has put a green roof on city hall—a miniature expanse of prairie that soaks up water and absorbs heat. And Abu Dhabi, anticipating the world after oil, is investing in a huge solar-power project, part of a scheme to turn the city into a green-energy pioneer.

All this suggests that the filthy cities of the urbanising world can, and will, clean themselves up, just as the squalid cities of the rich world have done. But they cannot do so alone. In this, as in most urban matters, a collaborative national government is essential, and international help, too.

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Failures at the top

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Lucky the city with a decent government

NOT all happy cities resemble one another, but each unhappy city is at least partly unhappy for a single reason: misgovernment. The quality of government, local and national, is the most important factor, apart from the economy, in the success of a city.

The failure of American governments at all levels both to prepare for and to respond to Hurricane Katrina has been widely noted. Less noted, though just as shocking, was the abject failure of Indian state and local officials before and after Mumbai's flooding. The cleansing of Bangkok's polluted air showed that governments can take action if they want to. But even there the politicians were supine, and the initiatives were taken by determined bureaucrats in spite of their political masters' passivity.

Alamy

The bureaucrats cleaned up Bangok

One feature common to most of the spilling-out-all-over cities of the developing world is a huge difference in wealth between the slum-dwellers at the bottom and the rich at the top. In virtually every misgoverned city, which is probably most of them, the politicians in power are among the rich. Any well-governed city is likely to have an honest administration.

So it should be no surprise that the mayor of Curitiba, Jaime Lerner, though he was first appointed by a military regime, was later elected as mayor, and went on to be twice elected governor of Paraná. He got things done, and most of them were for the benefit of rich and poor alike: he cajoled the poor to clear their slums of rubbish by rewarding them with bags of groceries; he persuaded fishermen to clean up a nearby polluted bay for a small fraction of the cost of having it done professionally; he created parks and encouraged shops and other sponsors to take responsibility for local orphans. As mayor of Bogotá ten years ago, Enrique Peñalosa also won popularity by similarly fostering greenery and bicycle paths, and by getting people out of cars and on to buses.

In rich countries, too, the well-governed cities stand out. Chicago is a rustbelt town whose economic base was manufacturing, an activity that has all but run out of puff in the old industrial heartland of America. In the 1980s Chicago lost companies, jobs and people, and seemed destined to languish in gradual decline in much the same way as Cleveland, Detroit and Pittsburgh. But energetic government led by a mayor, Richard Daley, whose ambitions start and end in his home town, has turned the city round. Having greened the streets with flowers and trees, taken over Chicago's intractable public housing and then set about reforming the school system, his administration has helped breathe new life into a moribund metropolis. He was re-elected in February for a sixth term, with 70% of the vote.

Running a city is not easy. The job has all the difficulties of running a country, except that public attention cannot be diverted to foreign affairs, and the control of the economy lies elsewhere. Mayors often have little control even of their own city. In Mumbai, for instance, neither the mayor nor the municipal commissioner exercises real power, which in India often lies with the surrounding state. It is notable that Delhi, which as the capital has its own legislative authority, is the only big Indian city to produce a comprehensive urban plan—now, incidentally, arousing much controversy. The Nairobi mayor's office has been similarly neutered, lest it should become too powerful.

Having one government responsible for both the city and its surrounding state would, however, be the envy of many American officials. It would lead to better co-ordination of transport, education and other services, and a better chance of getting richer people in the suburbs to pay a share of the costs of the big city from which they usually benefit. But any kind of collaboration is complicated if, like Minneapolis, you

have 344 local governments within your metropolitan area.

This fragmentation of government is less common in the South of the United States: Virginia's Fairfax county contains no municipalities, whereas Allegheny county in Pennsylvania, with a similar population, has 130. But for the northerners consolidation is difficult. Only a few American cities, such as Louisville and Jacksonville, have managed to rationalise a multiplicity of competing jurisdictions.

Alamy

France has done better, as has South Africa, which has reduced the number of local authorities from 1,100 in 1994 to 283 today. However, it has yet to enable poor and black communities to be joined administratively to rich and white ones, as geographical logic would often suggest. Brazil has created special urban zones with comprehensive planning for health, job-training, microcredit, you name it. By contrast, Mexico City, with 79 executive bodies, 63 legislative zones and three levels of government, has yet to succeed in its efforts to co-ordinate its many urban plans.

Not all cities need to be planned, in the way that 16th-century Rome was laid out by Pope Sixtus V, with his obelisks and connecting streets, and Paris was designed by Baron Haussmann, with his boulevards and *grands travaux*. And some planning has been a disappointment, if not an outright failure. It took almost 200 years—and the Kennedy Centre, and the invention of air-conditioning—to make Washington, DC, for example, a civilised city. Canberra has yet to rid itself of its deadening political monoculture. Brasilia has grown tatty, attracting slums, as has Abuja, yet another planned capital. But planning is needed if infrastructure is to work, the local economy is to fit in with the regional and national economies and if health, education and other social policies are to be suitable for the people they must serve.

Plan of inaction

The failure to plan can be seen most obviously in inadequate physical infrastructure. Bengalooru's streets are choked because no public transport system has been built to carry the traffic that economic success has created. Mumbai's airport, crucial for the city that has long been the gateway to India, is already handling many more passengers than it was designed for. The only solution is to build a new airport across the harbour, with a rail link to the city across a bridge.

But then almost every aspect of Mumbai's infrastructure is inadequate. Power shortages mean daily blackouts for many areas, which in turn lead to train delays and cuts in water supplies. An eight-lane bridge, with two lanes set aside for buses, is being built over the sea along the west of the peninsula, with the aim of relieving congestion ashore. Other bridges are planned to carry traffic across the bay on the east side, where a huge new city, Navi Mumbai, is to be built round a special economic zone, one of 72 approved for the state of Maharashtra. And a metro, 80% paid for by private investors, will eventually carry commuters to and from their place of work on the peninsula.

A collection of officials, industrialists, professionals and NGO workers known as the Citizens Action Group gather regularly under the chairmanship of the state's chief minister to help push all these projects along. It is supported by Bombay First, the businessmen's organisation, and other interested parties. But the task that confronts them is simply huge, ranging from improving the city's schools and hospitals to persuading the national Ministry of Shipping, which owns the port, to release some of its 800 hectares of land for municipal use.

With 300-400 families moving into Mumbai every day and the city needing at least 1.1m houses for poorer Mumbaikars (according to McKinsey in 2003), the necessary sense of urgency will be hard to achieve. Mumbai really needs a completely different form of government, one that would ideally be led by a mayor who could give his authority to all the endeavours that the city requires and be held responsible for both their successes and any shortcomings. Of that there is no sign.

It is a paradox, common even in the democracies of the developing world, that voting and city government appear disconnected. The explanation is that most voters in cities are poor. The slums alone account for nearly 1 billion people, one in three of the world's city-dwellers. Yet they are not organised and, lacking money, also lack political power. Until that changes, many cities may be destined to fester in corruption and misgovernment.

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In place of God

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Culture replaces religion

FROM the earliest times, a central role of any big town was sacred or religious. Until the 16th century, the status of a city was in England granted only to towns that had a diocesan cathedral, and to this day the title “metropolitan” is in some churches given to senior clerics. Cities still tend to have bigger and more splendid churches, mosques and temples than do mere towns and villages. But in the rich world the religious role of the metropolis has diminished, often to vanishing point. The ensuing vacuum has generally been filled by a secular alternative.

Alamy

Calatrava cheers up Milwaukee

In some places it is shopping, appropriately if you believe that consumerism is a new religion, and remember that the shrines of old often had a market close by. In others the shrine-substitute is a cultural or sporting attraction. This has the merit of feeding the soul while at the same time providing employment, producing profits and helping to fill the coffers of the city government.

Some cities created their special non-religious attractions without realising that they would draw tourists. Long before Florence, Venice and other European towns became must-see sights of the 18th-century Grand Tour, Rome had built its Coliseum, Babylon its hanging gardens and Alexandria its lighthouse. Nowadays visitors flock to Berlin, London or Paris to see an exhibition or collection, watch a play or opera, or listen to a concert. And it is not just tourists who are drawn. When wooing investors or companies ready to move their headquarters, rival cities will now flaunt their galleries, theatres and orchestras as much as their airline connections, modern hospitals and fibre-optic networks. That was partly how Chicago in 2000 stole Boeing's headquarters from under the noses of Dallas and Denver.

No city can overnight create a great orchestra, a gallery filled with rare masterpieces or a theatre district to rival Broadway. But it took no time for Sydney, then a faltering but by no means moribund city, to become visually synonymous with its unconventional opera house, finished in 1973. By contrast, Bilbao was a run-down industrial town in a run-down part of Spain, but when it opened its Guggenheim museum in 1997, it inspired imitators all over the world.

Bilbao's coup was to get a first-class American architect, Frank Gehry, to design a futuristic building which has served to transform the image of the city (if not the reality) into that of an ultra-modern, arty, fun-filled metropolis. Milwaukee, another depressed city, has likewise cheered itself up with a showy art gallery, this one designed by a Spanish architect, Santiago Calatrava. Seattle commissioned Rem Koolhaas, a Dutch architect, to design an eye-catching library, and Fort Worth secured a prize-winning Japanese, Tadao Ando, for its new museum.

One museum does not make a culture complex, however, and the more skilful exponents of the art of dazzle-and-regenerate go for a succession of buildings. Abu Dhabi is to open branches of both the Louvre and the Guggenheim. Chicago has created a Millennium Park, with sculptures, an auditorium and an extraordinary fountain, though the humdrum amusements of its Navy Pier seem to pull in more people. And Valencia has recently added an opera house, designed by its own Mr Calatrava, to the new museums, aquarium and sculpture garden that make up its City of Arts and Sciences.

Other cities—Kuala Lumpur, Taipei, Shanghai, soon perhaps St Petersburg and Paris—go for tall buildings, believing, as did the burghers of medieval San Gimignano, that height means importance. And others lure expositions, jamborees or sporting events. Few have done this as skilfully as Barcelona, which used the 1992 Olympic games to renew its transport system, put up new buildings, revamp its airport and rebuild most of its infrastructure.

Beyond the fringe

An alternative is to hold an annual fair or festival, which almost every city in the world now seems to be doing in some form. Edinburgh, however, may have milked the cultural variety as successfully as any city. Founded in 1947, the main festival has spawned sub-festivals for books, films and television, not to mention a host of fringe events. It is widely imitated.

Yet neither buildings nor events are guaranteed to pay off, either financially or in terms of pleasing the citizenry. The series of Maggie's centres being built for cancer patients near hospitals in British cities shows that small functional buildings can be well designed and aesthetically satisfying (all are the work of well-known architects). But many people value the character of old neighbourhoods, whether architecturally notable or not.

Modern cities tend to look alike. Cheap housing seems to mean identical blocks built of concrete. And even more expensive buildings tend to be constructed to run-of-the-mill designs. No wonder that swathes of Seoul look like swathes of São Paulo and swathes of Shanghai. Even the most ambitious buildings, many designed by trophy architects who flit from one country to the next, often seem alien to their context. Dubai's Burj Al Arab hotel, which is meant to resemble a giant dhow, may have visual echoes of local history. But the City of London's gigantic Gherkin is as in or out of place there as it would be anywhere else. The same could be said of the Roppongi Hills centre in Tokyo, François Mitterrand's national library in Paris or countless buildings elsewhere.

Most cities in rich countries, with honourable exceptions, have been wanton in tearing down buildings, domestic, commercial and public, that were built to a human scale and reflected local history. Tokyo has been vandalised. More damage was visited on Britain's cities by architects and planners in the 1950s and 1960s than by all the German bombing in the second world war. Unfortunately, similar mistakes are being repeated in the fast-growing cities of Africa and Asia, where the stock of old buildings is often smaller.

Shanghai has allowed block upon block of distinctive red-brick tenements to be demolished, just as Beijing has let developers destroy the courtyard houses of its *hutong* neighbourhoods. Mumbai has been exemplary in listing for preservation most of its notable old buildings—it has some of the best Victorian architecture in the world—but is still destroying chawls, the single-room tenemented buildings that give the city so much of its proletarian character. Even Mecca is tearing down its heritage, including the house in which the Prophet Muhammad was born, to make way for nondescript developments.

People want all sorts of things from their neighbourhood. As the urban iconoclast Jane Jacobs said, they want the untidiness that comes with having houses close to workplaces, shops next to flats, and rich next to poor. They also want a balance between privacy and the opportunity of chance, or planned, encounter. But none of that need mean ugliness. Cities, after all, still have spiritual needs to satisfy.

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The reinvention test

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Corbis

A successful city must expect to go through several rebirths over time

CITIES are durable. Most last longer than the countries that surround them, or indeed any other human institutions. But some thrive, whereas others merely mark time (Cleveland, Minsk, Pyongyang), go into apparently long-term decline (Detroit, New Orleans, Venice) or disappear (Tenochtitlán, Tikal, Troy). What are the characteristics of a successful city?

The short answer is good government and a flourishing economy. But such attributes may come and go in the life of a metropolis. In order to be continuously successful, a city has to be able to reinvent itself, perhaps several times. Harvard's Edward Glaeser describes how Boston has done this three times—"in the early 19th century as the provider of seafaring human capital for a far-flung maritime trading and fishing empire, in the late 19th century as a factory town built on immigrant labour and Brahmin capital, and finally in the 20th century as a centre of the information economy." On each occasion, human capital provided the secret to Boston's rebirth. A strong base of skilled workers, writes Mr Glaeser, has been a source of long-run urban health.

Education was important from the first in Boston. But Mr Glaeser draws attention to other characteristics of the city that were present even in colonial times. It had a strong set of community organisations, because of its church structure, and something like the rule of law. It also had a tradition of "democratic egalitarianism".

Law has been essential for urban life since Babylonian times, both because cities have usually been centres of commerce, and trade needs regulation, and because cities tend to draw different kinds of people, whose success in living together depends on common rules of behaviour. Democracy, too, has served cities well, providing a shock-absorber for changing economic times and a mechanism whereby immigrants can join the mainstream.

Immigration, or at least an ethnic and religious mix, has also been closely associated with urban success. As Joel Kotkin points out in "The City", Chinese towns at the end of the first millennium AD showed the same cosmopolitan mixture as did Alexandria, Cairo, Antioch and Venice. Pre-1492 Seville, 16th-century London and 19th-century Bombay (now Mumbai) all contained a variety of different peoples, whether Muslims, Jews, Parsis or others.

Throughout history, cities open to the world have benefited both from an exchange of goods and from a trade in ideas from abroad. Japan, by closing its doors to foreigners, condemned its cities to slow marination in their own culture until the country's opening up after 1853. Today the burgeoning cities with the best chance of overcoming their difficulties are those in Asia and Latin America that can gain from globalisation. Africa's cities, largely excluded from this phenomenon, are winning relatively little investment, trade or entrepreneurial fizz from foreigners.

Some cities in the rich world, too, have been much more successful than others at exploiting globalisation. The ones that have done best are those that have plugged into global industries and been able to capture the headquarters or lesser corporate centres of globalised companies, especially banks and other financial firms, argues Saskia Sassen, of the University of Chicago. London, New York and Tokyo are pre-eminent in this, but some other cities—Paris, Frankfurt, Zurich, Amsterdam, Chicago, Los Angeles, Sydney, Hong Kong, São Paulo, Mexico City—are not far behind.

Not every city can "go global" or will even want to. There are other types of *raison d'être*. One is simply to be a pleasant place to live and work, pleasant meaning different things to different people, of course. In the developing world most people would be delighted to live in a city that was prosperous and well governed, if that meant jobs were available, officials were honest, the streets were safe, housing was affordable and transport, sanitation and basic utilities operated to minimum standards. Even in rich countries not all these things can be taken for granted.

Mercer, a consulting firm, publishes a ranking of big cities each year based on an assessment of about 40 factors falling into ten categories (political, economic, cultural, medical, educational, public-service, recreational, consumer-goods, housing and environmental). Last year the top ten cities were Zurich, Geneva, Vancouver, Vienna, Auckland, Dusseldorf, Frankfurt, Munich, Bern and Sydney.

No points for thrills 5

Global livability rankings, 2005

City	Ranking	City	Ranking
Vancouver	1	Dusseldorf	26
Melbourne	2	Amsterdam	26
Vienna	2	Reykjavik	26
Geneva	2	Munich	26
Perth	5	Luxembourg	26
Adelaide	5	Cleveland	26
Sydney	5	Pittsburgh	26
Zurich	5	Honolulu	33
Toronto	5	Boston	33
Calgary	5	Lyon	33
Brisbane	11	Chicago	33
Copenhagen	11	Miami	33
Helsinki	11	Seattle	33
Stockholm	11	Madrid	33
Frankfurt	11	Barcelona	33
Montreal	16	Atlanta	41
Tokyo	16	Hong Kong	41
Hamburg	16	Minneapolis	41
Paris	16	Manchester	41
Oslo	20	Washington, DC	41
Auckland	20	Detroit	41
Berlin	20	Houston	47
Brussels	20	London	47
Osaka Kobe	20	Los Angeles	47
Wellington	20	Dublin	47

Source: Economist Intelligence Unit

The Economist Intelligence Unit, a sister organisation to *The Economist*, carries out a similar exercise (see table). Five of its top ten cities for 2005 were also in Mercer's top ten. All ten in each list, with the exception of Sydney and Calgary, might be considered rather homely, even dull. The cities that have done most to excite attention the world over—New York, Chicago and Los Angeles—are also-rans. Smallish countries mostly do well, and Australia, the most urbanised country of all, ranks notably highly, at least in the EIU list.

No list includes the ability to reinvent itself among the desirable qualities of a city. That may, however, be increasingly put to the test, for some people believe that cities have had their day.

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Et in suburbia ego?

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Corbis

With age, cities go centrifugal—but maybe not for ever

WITH people heading for cities as never before, it may seem an odd moment to be announcing their impending demise. In fact, it is an old cry: as long ago as 1967 Marshall McLuhan declared, “The city no longer exists, except as a cultural ghost for tourists.” Some of today's urban critics, such as James Heartfield, take much the same view. Many of the cities that have been around longest are in economic decline, such critics point out, and in some places more people are leaving them than joining them. When the newly popular cities of the developing world are a bit older, will they be considered just as undesirable places to live in as central Buffalo or central Bradford?

In America you certainly have to be an optimist to believe that the old rustbelt cities will soon regain population or economic vitality. The surroundings of Detroit may be pleasant and prosperous enough, and may stay that way, but the centre is dying. Cities of this kind are like hummocks of spinifex, or porcupine grass, whose centre eventually collapses, leaving live rings surrounding a dead middle.

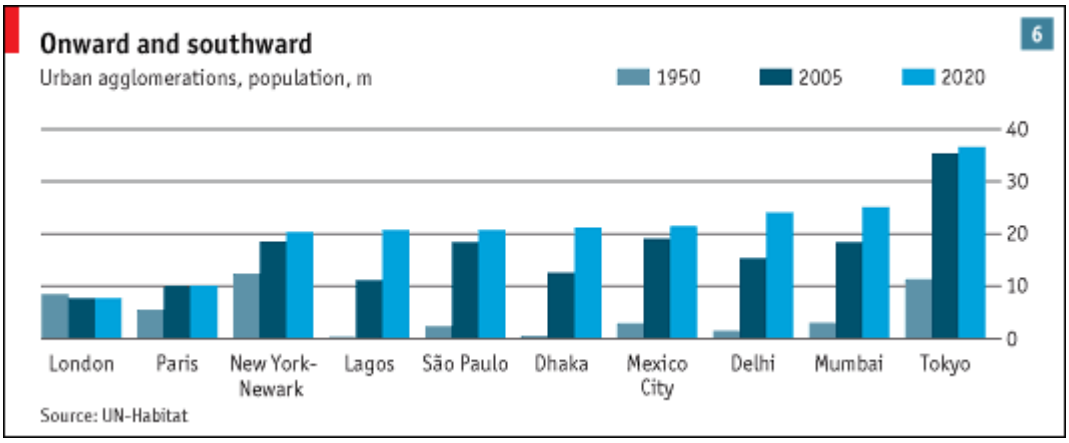
City centres might actually look much deader than they already do but for one curious change. In parts of America at least, such as Detroit and Philadelphia, many houses have become less expensive to buy than they were to build. Poor Americans live in cities largely because of access to public transport and services provided by benign municipal governments, argues Harvard's Mr Glaeser. But in blighted cities, he says, they have an extra reason to stay: if they move out, they will not be able to afford a house elsewhere.

Plenty of cities are not dying, of course, even in the United States, where people have been flocking to the metropolises of the South and West for decades. But—Mr Glaeser again—the dominant form of city living in America, whether in the rustbelt or the sunbelt, is sprawl, a natural consequence of lots of land and a car-based culture. As a result, the typical, densely packed metropolis of 1900 has become a diffuse agglomeration of old city centre, rich suburbs and then even-lower-density, semi-urban exurbs, where every house sits on its own little prairie. So while central Atlanta grew by 6% in the 1990s, its overall metropolitan area expanded by 39%, with the biggest expansion farthest from the middle. A similar pattern of flourishing fringes can be seen all over the country—sunbelt, rustbelt or snowbelt.

The centre may be a place to visit for work or entertainment rather than to live in. That is true, for instance, of Los Angeles, despite its efforts to give itself a beating, lovable heart. But then the suburbs, especially if they are fairly old, may have acquired all the characteristics of cities: a “downtown”, swanky shops, the headquarters of a *Fortune* 500 company, maybe a mega-church, a theatre, a symphony orchestra and often an army of Latino migrants who have never been near a traditional ghetto in the city centre. The exurbs are more formless.

Much of this is uniquely American, but suburban living is not. In his book “Sprawl”, Robert Bruegmann quotes Daniel Defoe's comments 300 years ago on the number of houses of “gentlemen of quality”

springing up in Surrey villages outside London. Nowadays, says Mr Heartfield, the city critic, only 9% of Britons live in an urban core, whereas 43% prefer the suburbs; barely 5% live in true country. Even France, a late urbaniser, is becoming suburban. Its *banlieues* are usually associated with immigrants, poverty and unrest. But those are typical only of some inner suburbs. The outer ones are much like America's: white, prosperous and gaining inhabitants, just as French city centres are losing them.



Some of those who say the city has had its day also point to economic and technical changes that seem to remove one of the most basic reasons for getting together in an urban huddle. No longer do people have to gather round the *agora* to do their business. Information technology allows them to work wherever they want. Given that they can also get a religious, sporting or cultural fix by turning on the television, and do their shopping as well as their work on the internet, why live in a city? As Jefferson said, cities are “pestilential to the morals, the health, and the liberties of man.” They are the sort of places where you get mugged.

Not so fast. Other changes suggest that it may be sprawl, not the city, that is doomed. Land is finite, population is still expanding and the motor car's dominance may not last much longer. With global warming and no economic alternative to scarce petrol, it may not be feasible to go on living 20km away from everything—school, work, babysitter, Starbucks.

In any event, other trends suggest that for every Timmy Willie, there is a Johnny Town-Mouse: many people like urban life and want to go on living in a city, particularly the centre. Among them are the elderly, a growing share of the population, who want easy access to transport, doctors, hospitals, cinemas and above all family and friends. And the young are urban creatures, too. They like the buzz of a city, the concentration of restaurants, clubs and other forms of entertainment. And the better educated (and so the richer) are likely to find work in the universities, hospitals and research centres that tend to cluster in cities. The suburbs may be pleasant enough when parents are absorbed with work and children, but for the childless and the empty-nesters the city has many merits.

Several academics take this view. Some, such as Richard Florida, of George Mason University, see cities as natural homes for the “creative class”, whose members are artists, designers, academics and so on. Others, such as Terry Nichols Clark, of the University of Chicago, stress the pleasures of the city as a reason to live there: entertainment, they say, can replace manufacturing in the post-industrial city, providing both jobs and fun.

Others find further reasons for optimism. Bruce Katz, of the Brookings Institution in Washington, argues that there is much more inventiveness at municipal and state level in America than at federal level. A city like Denver is exploiting its power to tax to introduce a light-rail system. Private-sector investment is being combined with government money for urban purposes much more widely and effectively. Cities such as Chicago are now seen as central to environmental improvements. All this means that public policy is becoming more city-centred.

At the same time cities are becoming sexier in the popular imagination—literally, in the case of “Sex and the City”, but more metaphorically through other television shows like “Seinfeld” and “Friends”. The trendiness is not confined to New York. For anyone on the way up, the city is the place to be. Some 60% of the jobs in American cities fall into the “new economy” category, compared with about 40% in the Sprawl-Mart suburbs. And once they have got to the top, the successful do not always opt for wide-open spaces: the most densely populated borough in Britain is London's smart Kensington & Chelsea.

Centripetal heads, centrifugal hearts

Looking to the future, William Mitchell, of the Massachusetts Institute of Technology, argues that the next urban age will be characterised by “the new, network-mediated metropolis of the digital electronic era”. He believes that 21st-century cities will be “e-topias”—places where people live and work in the same building, lead busy local lives in pedestrian-scale neighbourhoods and strong communities, but also gather virtually in electronic meeting-places and link themselves up to enable decentralised production.

To the slum-dwellers of Kibera or Dharavi, all this may seem distant, indeed far-fetched. Their first need is to get out of poverty—and the slums. Yet technology, if it brought cheap and reliable commuting, might help: they could then afford to live on less expensive land in the suburbs.

In that event, rich and poor cities might start to look more similar and, for some, more attractive. For it is tempting to see in the popularity of the suburbs an attempt to marry the convenience of urban life with the traditional charms of the country. Human beings are adaptive. Many have for centuries relished city life. Like the robins and great tits that adjust their songs to city noises, they are urban survivors.

But talk to many an inhabitant of today's big cities and you soon detect a rural background, and often a slight wistfulness with it. Where do Chinese city-dwellers go for their holidays? Back to where they, or their family, once came from. Where do urban Africans get buried? In their villages. Even in highly urbanised Japan the farmer and his rice field maintain a special place in the mind of the Tokyo *sarariman*.

When the current rush to the cities ends and this great episode in the history of urbanisation is over, which will probably be when 80% of the world's population live in cities, the true effects of urban life may be clearer. In their book “Mismatch: Why Our World No Longer Fits Our Bodies”, Peter Gluckman and Mark Hanson argue that the big changes in human history, most of which have happened rather recently in humans' evolutionary history, have not been matched by changes in human biology. Cities may be the epitome of modernity, but they are inhabited by a creature designed for a pre-agricultural existence. The supermarket is no substitute for the steppes, plains and savannahs of the hunter-gatherer. The office chair is no place for the descendants of *Homo erectus*. No wonder there is a tension between habitat and inhabitant.

Perhaps that tension will lead to some terrible rupture in the megacities now taking shape. It is not hard to see that political changes—perhaps new city-states, perhaps new forms of city-cum-regional government—may ensue. With luck, though, the tension can instead be put to work, reinventively, to create better cities. Dachas and weekend cottages will be popular. The suburbs will keep some adherents; if a cheap and non-polluting substitute for petrol can be found, they may even represent the compromise of choice for discombobulated 21st-century man. But there is no going back to the countryside now.

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Media

Why Murdoch wants the WSJ

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Reuters

Is there more to Rupert Murdoch's bid for Dow Jones than an old man's vanity?

THERE have been mutterings in recent months that Rupert Murdoch is starting to show his age—which, as he has just turned 76, would not be all that surprising. But his friends contend that the media tycoon has always been prone to long, rambling sentences and to repeating himself. If there is an occasional lack of clarity in his explanation of News Corporation's strategy, particularly its embrace of new media through acquisitions such as that of MySpace, a social-networking website, there can be no doubting the excellence of that strategy in practice.

And if actions speak louder than words, Mr Murdoch's recent behaviour shouts that he is still the bold, innovative big spender, bent on global media domination, that he has always been. On May 1st it emerged that News Corporation had offered $5 billion for Dow Jones, a media firm with assets including the *Wall Street Journal* and a respected newswire. Although Dow Jones has long suffered from well publicised managerial difficulties, it had been widely assumed that the Bancroft family, which owns a controlling stake through special voting shares, would not sell—not to some johnny-come-lately like Mr Murdoch, at any rate, though perhaps to the owners of the *New York Times* or *Washington Post*.

The family's initial response to Mr Murdoch's bid was no. Investors seemed unimpressed, too: News Corp's share price fell when news of his offer emerged, wiping $3 billion off its market valuation. But Mr Murdoch's audacious bid could yet succeed. At the very least Dow Jones is “in play”—and Mr Murdoch is in a position to scare off most plausible rivals.

For one thing, his offer is extremely generous. At $60 per ordinary share, it is 65% above the closing price on April 30th, before news of the offer emerged. That values Dow Jones at over 16 times its expected pre-tax profits for 2007, a far higher multiple than other newspaper publishers. That must be tempting to some of the younger descendants of Clarence Barron, the “father of financial journalism”. They will soon be in the majority within the family, and are said to be lobbying their elders to swap shares for Mr Murdoch's cash. (Some 80% of family's votes are opposed to his offer, but this represents only 52% of the total votes, so a small number of defections could tip the balance.)

Nor, more fundamentally, is the outlook for newspapers particularly good. Indeed, as advertising migrates rapidly to the internet, there have been predictions, including in *The Economist* (see article), that the paper end of the newspaper industry is destined to suffer a severe pruning. The younger Bancrofts look at the Chandler family's failure to get a good price for the Tribune Company—owner of the *Los Angeles Times* and *Chicago Tribune*—which was eventually sold cheaply last month to Sam Zell, a property mogul, and the company's employee share-ownership plan. They conclude that they should grab Mr Murdoch's money before he changes his mind.

Which raises the $5 billion question: why does Mr Murdoch want Dow Jones? There are two main schools of thought, neither of which suggests that his offer should be viewed as sending a message about the

valuations of other newspaper publishers, though their shares mostly jumped at the news of his bid for Dow.

The first school sees the bid as the latest evidence that Mr Murdoch is one of the few old-media bosses who “gets” new media. Forget the print edition of the *Wall Street Journal* and focus on its lucrative online edition. Content is king, and the key to success is supplying it through lots of channels, old and new. Look at how News Corp uses websites to generate additional income for its “American Idol” television show. Mr Murdoch is launching a business-television channel in the autumn. All that Dow Jones content would fit right in.

News he can use, perhaps

Yet the new business channel is a risky launch that has generated little enthusiasm within News Corp, where it is seen by some top executives as Mr Murdoch's vanity project. He has apparently spotted a lucrative niche for a pro-business channel, much as his Fox News channel found plenty of viewers who prefer its “fair and balanced” coverage of politics to the bleeding liberal hearts of CNN. But CNBC, America's incumbent business channel, is hardly anti-business, and it is far more in tune with what viewers want (namely, accurate information about the things affecting their investments) than CNN was when Mr Murdoch launched Fox. Moreover, Dow Jones has a contract to supply content to CNBC until 2012, by which time the fate of Mr Murdoch's rival channel will surely have been decided.

That is why the second school tends to dismiss the new-media arguments being offered by News Corp to justify buying Dow Jones as a sop to shareholders who feel that Mr Murdoch's company is over-reliant on newspapers, some of which are underperforming. He finally managed to get rid of one of the most truculent of those shareholders last month by acquiring the stake held by Liberty Media, a conglomerate run by his old friend, turned thorn-in-the-side, John Malone. That freed him to pursue his old dream of owning a global business newspaper.

Mr Murdoch has long coveted the *Wall Street Journal* and the *Financial Times*. In January talks with private-equity firms at the World Economic Forum about a joint bid for Pearson, the owner of the *Financial Times* (and part owner of *The Economist*), apparently ran out of steam. So he turned his attention to Dow Jones instead.

Inevitably, given Mr Murdoch's reputation as a hands-on proprietor, there are fears that he would undermine the editorial independence of the *Wall Street Journal*'s news coverage. But he is certain to understand that excessive interference could tarnish the paper's brand, the value of which comes from having wealthy readers who value honest journalism. Still, should he wish to install a loyalist as editor, he has one on hand in Britain: Robert Thomson, editor of the News Corp-owned *Times* since leaving the *Financial Times* after he was passed over for the editorship in 2001.

Some News Corp shareholders are privately furious about Mr Murdoch's willingness to pay such a high price for what they see as the media equivalent of a trophy wife. Yet if the deal goes ahead, it might turn out better than they fear. There are some synergies between News Corp and Dow Jones, as well as fairly similar cultures. Dow Jones has bungled its international expansion and at the same time failed to cut costs at home. Mr Murdoch may indeed “get” new media, and may have spotted lucrative opportunities within Dow Jones. If so, and if his bid succeeds, it would not be the first time that he has proved his critics wrong.

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Intellectual property

Patently obvious

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America's Supreme Court raises the bar for what deserves a patent

IN 1572 the Privy Council of Elizabeth I, the queen of England, refused to grant patent protection to new knives with bone handles because the improvement was marginal. It is only natural that things progress, the council reasoned; minor ameliorations do not cut it. This week America's Supreme Court decided likewise.

Ruling on *KSR International v Teleflex*, a patent dispute centred on the addition of electronic sensors to car-accelerator pedals, the court said that the combination of two existing technologies was not sufficiently "non-obvious" to deserve a patent. "Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress," wrote Justice Anthony Kennedy in his opinion for the court. To obtain a patent's 20-year exclusivity, an invention is expected to be novel, useful and non-obvious—but the third requirement has not been rigorously applied in recent years by the patent office and the courts. Now examiners and the courts have more discretion to use "common sense".

The ruling has sweeping implications. "Nearly every patent in force today is prospectively open to challenge," says Bruce Lehman, a former commissioner of the United States Patent and Trademark Office who works at Akin Gump, a law firm. He expects a huge increase in litigation, longer waits to get patents and ultimately less certainty over their legitimacy. Yet this is beneficial, believes Brian Kahin, an intellectual-property expert at the Computer & Communications Industry Association, an industry lobby, since it may reduce the number of trivial or dubious patents.

The computer industry welcomes the ruling as a way to thwart the growing number of frivolous lawsuits by "patent trolls"—firms that make a business of suing others for violating questionable patents. But it is a setback for the drug industry, which often seeks new patents for minor tweaks to existing inventions, such as combining one drug with another.

The ruling is just one in a string of recent cases in which the Supreme Court has sought to reverse the trend towards making patents easier to obtain and enforce. Last year in a case involving eBay, the biggest online auction site, the court tightened the standards that determine when an injunction can be used to force a firm accused of patent infringement to stop trading. In January the court ruled in a dispute between two biotech firms that companies which license a patent from its owner may still challenge its legality.

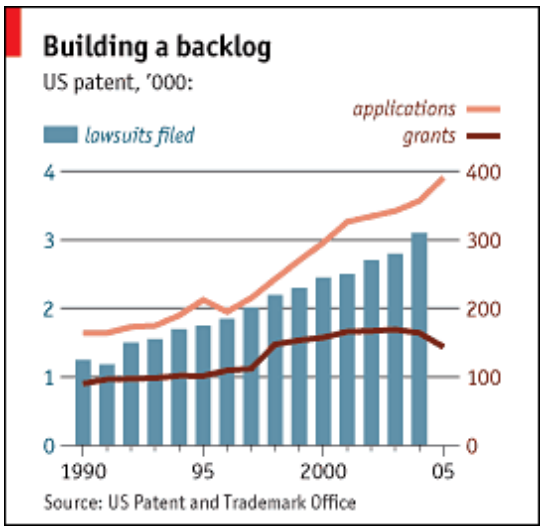
And this week in a separate decision the court ruled in favour of Microsoft, the world's biggest software company, and against AT&T, the world's biggest telecoms firm, in a dispute over damages for patent infringement. It ruled that such damages should be limited to sales in America, but not abroad. This will help Microsoft in another infringement case in which it was ordered to pay $1.5 billion to Alcatel-Lucent, a telecoms-equipment firm, largely on the basis of sales outside America.

The underlying problem is that as the number of patents, and the value of each one, has increased tremendously, the system has been slow to adapt (see chart). The flood of applications taxed patent offices, creating huge backlogs and lengthy delays. Standards slipped. The number of lawsuits and value of settlements shot up. Attempts over many years by Congress to reform the system stalled, owing to a lack of agreement between the computer and drug industries on what should change. So the Supreme Court's decisions try to do what policy-makers could not.

How non-obvious an idea needs to be to qualify for a patent has long vexed America's legal minds. The invention had to be

“something more than the work of a skilled mechanic,” the Supreme Court opined in 1850. In 1941 it set the bar higher, requiring a “flash of genius”. In 1952 Congress loosened the standard, stating that the idea simply needed not to be obvious “to a person having ordinary skills”.

This week's ruling provides the contours of a modern patent policy, by implicitly stating that inventors ought to be familiar with practices from other fields and that combining existing technologies is not enough, says Dominique Guellec of the Organisation for Economic Co-operation and Development. It may thus end the boom in reviled “business-method patents”, which often entail the application of obvious things, such as shopping or auctions, to an online setting. And it will probably prompt patent regimes in other countries to become more stringent, too.



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Publix

The opposite of Wal-Mart

May 3rd 2007 | TALLAHASSEE
From The Economist print edition

A thriving grocery chain provides a telling contrast with Wal-Mart

WITH the rise of Wal-Mart, smaller supermarkets across America have struggled to compete. But not Publix Super Markets, which recently opened its 900th store, in Murfreesboro, Tennessee, and is defying Wal-Mart's market-share success in food sales. Publix is America's largest privately owned grocery chain, with revenues in 2006 of $21.7 billion, up 5% from 2005, and net profits of $1.1 billion, up 11%. Publix has a market share of more than 40% in Florida, its home state, and it is taking business from Wal-Mart and others as it expands into Alabama, Georgia, Tennessee and South Carolina. It has a competitive edge over Wal-Mart because it is strong in precisely the areas where Wal-Mart is vulnerable.

Take customer satisfaction, for example. Publix has ranked number one out of supermarkets on the American Consumer Satisfaction Index, published by the University of Michigan, since it began 14 years ago, whereas Wal-Mart ranks last. Publix employees have a reputation for going out of their way to please customers—testimony to the motivational power of employee ownership, perhaps. Publix employees put your shopping into bags, take it to the car and refuse tips—unless you offer more than once. They own 31% of the firm through an employee share-ownership plan, making Publix the largest employee-owned company in America. (The rest of Publix, established in 1930 by George W. Jenkins, is largely owned by the Jenkins family, which still runs the firm.)

Publix has also tailored its products to fast-growing local markets more successfully than Wal-Mart has, boosting sales while carving a niche for itself. The company has opened Publix Sabor stores in south Florida, seeking to attract shoppers from its large Hispanic and Caribbean populations. As well as offering packaged goods aimed at Hispanic customers, as Wal-Mart does in some stores, these shops sell prepared dishes, including red beans with pig's feet and stewed chicken, and perishables such as yucca root.

In addition, Publix has gained a cult-like following amongst Floridians for its Publix-brand goods such as chocolate-chip cookies, sub sandwiches and sweet tea. Publix began selling organic and natural products in 1996 and will open several stores devoted to such products this year. Wal-Mart began selling organic food only last year, and is now thought to be retreating from its initial ambitious plans. And although Wal-Mart has introduced around 120 Neighborhood Markets—supermarket-sized outlets intended to compete with the likes of Publix—they are far less profitable than its traditional, larger stores.

Even these larger stores do not measure up to Publix. John Heinbockel, a food-retail analyst at Goldman Sachs, an investment bank, notes that Wal-Mart's same-store food-sales growth, though in the mid-single digits, has been falling, and total same-store sales growth slipped to 1.9% in 2006. Meanwhile, Publix's same-store sales growth has been steadily increasing: this week the firm said it had reached 5.1% in the first three months of this year. In a market where margins are slim, Publix makes 40% more profit on groceries than Wal-Mart does, says Burt Flickinger III of Strategic Resource Group, a consultancy.

Publix is not the only private, family-owned regional chain holding its own against Wal-Mart. Others such as H-E-B in Texas and Wegmans in the north-east have respectable market shares within their regions. But Publix is 60% bigger by revenue than the next largest private supermarket, Meijer in the Midwest. It is opening 37 new shops this year, both in Florida and farther afield. Judging by its successful expansion into Georgia, where it has the largest number of stores outside Florida, Publix will continue to give the Bentonville behemoth a run for its money as it expands throughout America's south-east.

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Jet engines

Odd couple

May 3rd 2007 | VILLAROCHE
From The Economist print edition

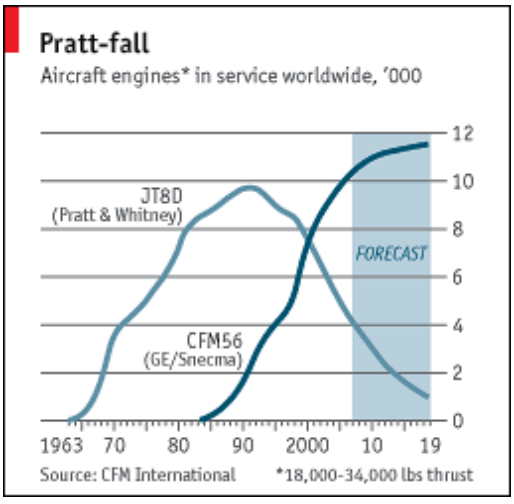
An unusual Franco-American alliance rules the skies

IF YOU are reading this article while on a short-haul flight, the chances are your aircraft's engines were made by CFM International, an unusual yet durable industrial alliance. It is a joint venture between General Electric (GE), the world's most successful conglomerate and a standard bearer of raw Anglo-Saxon capitalism, and Snecma, which was until recently a French state-owned enterprise. CFM's engines power 71% of the world's fleet of single-aisle aircraft of 100 seats and over. GE competes with Rolls-Royce and Pratt & Whitney in the market for the huge engines that power jumbos and other long-haul, wide-bodied planes. But Boeing 737s and the Airbus A320 family, the workhorses of aviation, constitute the largest market for engines.

The joint venture between GE and Snecma began in 1974. Both companies were anxious to expand beyond mostly military customers into the growing civil business, dominated at the time by Pratt & Whitney. The technological leader, it had the bestselling engine for single-aisle planes and saw no need to collaborate with anyone. Snecma decided against linking up with Rolls-Royce after a failed collaboration on Concorde engines. That left GE, which was anxious to get close to Airbus, Europe's then-nascent aircraft consortium, which had been founded in 1970. The result was CFM.

An old military airfield on the edge of the forest of Fontainebleau is home to the European element of this odd pairing; the American component is based in GE's aero-engine division in Cincinnati. Despite a huge disparity in size, the two firms operate their joint venture on a simple and equitable basis. In both factories, the core module of the CFM engines (a GE design originally developed for fighter aircraft) is married to a French front fan and low-pressure turbine. Each partner is responsible for the research, design and production of its modules. When their collaboration began, the two companies' first task was to convince the American government to allow the sharing of GE's military technology with the French—something it is normally reluctant to do.

CFM then struggled for five years to find a single customer. It got lucky when its CFM56 model became the engine of choice on the Boeing 737. By the mid-1980s, Pratt & Whitney's market share was sliding and it was forced to join a consortium, called International Aero Engines (IAE), with Rolls-Royce and three Japanese firms to produce an engine to compete with CFM's runaway success (see chart). Despite head-on competition from IAE, sales of the CFM56 are growing by 20% a year and CFM has a backlog of orders. EasyJet, a British low-cost airline, has just placed an order worth more than $700m for engines to power 52 Airbus A319s.



Snecma has had a bumpy ride since being privatised three years ago. In one of those bewildering moves so typical of France, it was privatised and then merged with Sagem, a communications-equipment firm. There was no obvious industrial logic to the pairing, and there have been endless boardroom battles, which got much worse when an embarrassing hole in Sagem's accounts briefly pushed the merged group into the red last year. Yet amid the turmoil, Snecma's underlying business has prospered thanks to its partnership with GE.

Many companies set up joint ventures and other kinds of alliances, but few have one that is central to their entire business. Even the successful Renault-Nissan partnership is anchored in big cross-shareholdings. GE and Snecma share nothing but engine parts and sales. They split the proceeds roughly 50-50, based on notional costs, but neither has information on its partner's real costs. That way each has an incentive to be efficient, because each is responsible for its own bottom line. Jet engines may be awesomely complicated machines worth millions

of dollars each. But the secret to making them successfully seems to be to keep it simple.

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Mobile phones

When in roam

May 3rd 2007
From The Economist print edition

Regulation is not the only thing driving down the cost of making calls abroad

IT IS the mobile-phone industry's “dirty little secret”, says Mark Newman of Informa, a market-research company. He is talking about international roaming—calls placed and received by subscribers when travelling abroad. Analysts reckon that roaming charges account for 5-10% of operators' revenues globally, and a bigger slice of profits. In Europe high prices have stirred regulators into life. In the teeth of furious opposition from operators, the European Commission is close to imposing wholesale and retail price-caps on roaming calls. A plenary vote in the European Parliament this month will be the next step in a process that lawmakers want to wrap up before Europeans pack their bags for the summer holidays.

Getty Images

Hurry up, this is costing me a fortune

Just how much customers will gain from price caps is unclear. Any reduction in roaming revenues may cause a “water bed” effect, whereby operators seek to make up lost revenue elsewhere. The GSM Association, a trade body, warns that the cost of domestic calls may go up as the cost of roaming calls comes down. Jim Morrish of Analysys, a consultancy, says it is more likely that the cost of domestic calls will simply decline more slowly than before. The biggest effect may well be on non-Europeans visiting the European Union, since they will not be covered by the Commission's proposed regulation. Mr Newman says several European operators are planning to raise the wholesale rates they charge non-European operators when their customers roam onto their networks.

Outside Europe, there is little prospect of roaming regulation. National regulators have no incentive to force their own operators to cut prices if they cannot force reciprocity from operators in other countries. Even so, Informa predicts that retail roaming prices everywhere will fall by around half by 2011. Greater transparency is one reason. Aoife Sexton of the GSM Association fulminates against price caps, but accepts that the industry has to do more to make roaming charges clearer to customers. Both the industry and the European Commission have set up websites to help European travellers find the cheapest roaming rates. Last month operators in the Arab world launched a similar website.

Technology is also forcing prices down. Historically, operators have had limited control over which network customers would roam on to when abroad. But new techniques devised in the past couple of years let operators steer customers on to particular foreign networks. They can then direct more roaming traffic on to partner networks in return for lower wholesale prices. This has led to wholesale discounts of up to 75% in Europe and North America.

Operators within the same group can go even further. Celtel, an African operator owned by MTC of Kuwait, charges no roaming fees at all to customers moving between its networks in Kenya, Tanzania and Uganda. Customers can also top up airtime abroad with cards bought at home.

Roaming prices will not fall at the same rate everywhere. Operators in countries with fewer competitors

(or globetrotting citizens) are under less pressure to cut prices. Those with strong regional footprints, such as Mexico's América Móvil and Singapore's SingTel, are better placed to win wholesale discounts from other operators than smaller firms are. And weaning operators in developing markets off roaming revenues will be hard: in India, for example, foreign visitors pay up to 30 times more than locals do to place the same call. Mr Newman expects eventually to see a two-tier pricing structure, with customers paying lower roaming charges within regional or country groupings, and steeper tariffs elsewhere.

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Telecom Italia

Well connected

May 3rd 2007 | ROME
From The Economist print edition

Telefónica benefits as Pirelli's failed telecoms adventure comes to an end

A FEW years ago, when Telecom Italia had two head offices, one in Rome and the other in Turin, there were funeral parlours across the road from both. It seemed appropriate—for in the decade since it was privatised, Italy's biggest telecoms group has been a graveyard for top managers' ambitions and shareholders' hopes.

Unfortunately for Marco Tronchetti Provera, he was one such manager. As the boss of Pirelli, he got his tyre group into the telecoms business in July 2001, acquiring both a big stake in Telecom Italia and the job of chairman. Mr Tronchetti Provera's reign ended with his resignation last September after a feud with the government over plans to sell parts of the company. And Pirelli's painful stint as Telecom Italia's biggest shareholder ended on April 28th when a group of five investors bought it out. Pirelli had paid €4.17 per share for its stake but will now receive an average of €2.82 ($3.84) per share.

The deal will make Telefónica, Spain's telecoms giant, Telecom Italia's largest shareholder. It is paying €2.3 billion for 42.3% of a special-purpose company called Telco that will own 23.6% of Telecom Italia. Telco's four other shareholders are Italian: three financial institutions, which together will own 49.3%, and the Benetton family, which will own 8.4%. Under Telco's shareholders' pact, the Italians will appoint 13 of Telecom Italia's directors and Telefónica two. Telecom Italia's management will be independent of Telco, and any tie-ups between the Spanish and Italian telecoms giants will be left to their boards.

What the deal offers Pirelli is clear: damage limitation and recovery of about €3.3 billion from a very expensive misadventure. It will receive the same price per share for its stake in Telecom Italia as it was offered in a bid by America's AT&T and Mexico's América Móvil that was announced on April 1st and abandoned two weeks later after politicians made a fuss.

As for Telefónica, it is paying more than Telecom Italia's market price of €2.22 per share but it will in effect have power of veto over the Italian group's strategy. It may also get the chance to buy out Telco's Italian shareholders, which are locked into the pact for three years, evidently as a temporary sop to national pride.

Telefónica's arrival in Italy is merely the latest of four big recent Italo-Spanish ventures. Two ran aground—the takeover bid in 2005 by Spain's BBVA for Banca Nazionale del Lavoro, based in Rome, and the proposed merger in 2006 between Italy's Autostrade and Spain's Abertis (see article)—though the bid by Enel, Italy's largest power company, for Spain's Endesa succeeded last month. The Benettons, who own Autostrade, may be ready to continue their association with Telecom Italia because they hope to be rewarded by a relaxation of the Italian government's objections to the Autostrade-Abertis deal.

Indeed, a feature of all of these deals, successful or otherwise, is the sinuous hand of Italian politics. The three financial institutions in the Telecom Italia deal—two banks, Mediobanca and Intesa Sanpaolo, and Assicurazioni Generali, Italy's largest insurer—are very much part of the establishment. Telefónica evidently has good connections and powerful allies in Italy—and nowhere in western Europe do they count for more.

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The price of helium

Inflated

May 3rd 2007
From The Economist print edition

Demand for helium from high-tech industries is outstripping supply

CHILDREN'S parties need it. So do brain-imaging equipment and semiconductor factories. Helium, prized for its unique combination of physically desirable qualities, is irreplaceable for many purposes. Alas, expected new sources of the stuff have failed to materialise just as the high-tech industries that rely on it are booming. As a result the price of helium is soaring like an escaped party balloon.

Most helium comes from America. Natural gas contains trace amounts of it, though some gas fields are richer in helium than others. It is extracted from those in which the helium content exceeds around 0.3%. Natural gas is cooled to the point at which all other gases in the mixture have become liquid and only gaseous helium remains.

Its attractions are many. Helium is inert, which means it does not react with other substances. Manufacturers of electronic components love it because they can flood their fabrication tables with helium and it will prevent any other gases or impurities from lodging on the chips. Helium also readily absorbs heat, which makes it ideal for cooling things down. It can be used to cool metals to such an extent that they become superconductors, an effect that is exploited in brain scanners.

Why the sudden supply crunch? More and more electronics factories that use helium are springing up in China, South Korea and Taiwan as demand for components rises. Output from existing gas fields is starting to decline. And two new production plants, in Qatar and in Algeria, which had been expected to increase supply by some 20%, have run into trouble. Technical problems with the helium liquefier at the Qatar plant mean it is operating at 30-40% of capacity; an explosion three years ago at the Algerian plant delayed construction and it has yet to produce any helium. When production starts, probably later this year, the Algerian plant's output will be only half what had been intended.

Hence the high prices. In the past three months Air Liquide, a gas distributor, has increased its prices for American customers by 10%; Airgas, another distributor, has raised prices by between 15% and 25%; and Praxair has inflated the price it charges for helium by up to 30%.

This has prompted some interesting innovations, as distributors try to keep all their customers happy. In Britain BOC has taken over the management of the supply of helium to some hospitals. Instead of providing what staff order, the company tops up brain scanners just before they run out. This is more efficient than keeping the machines constantly full, because less helium is lost through evaporation. With prices so high, hospitals are especially keen to stop money vanishing into thin air.

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Face value

A safe landing

May 3rd 2007
From The Economist print edition

Landov

Gerald Grinstein has piloted Delta Air Lines out of bankruptcy

Get article background

AMID the new beginnings, an end is in sight. Delta Air Lines exited bankruptcy on April 30th after 19 months in Chapter 11, which followed years of prior restructuring. On the same day a revamped aircraft livery was unveiled at Delta's hub in Atlanta, Georgia. The airline's reissued shares were due to begin trading on the New York Stock Exchange on May 3rd. But for Gerald Grinstein, Delta's boss since January 2004, the job, and with it his career, is drawing to a close. Once the new board of directors has selected a successor, he will retire.

It has been an unexpected swansong. Just before taking the job at Delta, Mr Grinstein had been discreetly sounded out about a chief-executive position at another company. Then aged 71, he recalls giving an unequivocal response: “I will never, ever run a company again.” Yet when he was offered the top job at Delta soon afterwards, the challenge of reviving the firm prompted second thoughts. It has been an appropriate finale to his career. The manner of his appointment, the task he has faced and the approach he has taken all have echoes of previous roles.

Mr Grinstein moved from the boardroom, where he had been a director since 1987, to take control at Delta. It is an unusual path to the boss's chair, but a familiar one for Mr Grinstein, who made similar jumps at both Western Airlines and Burlington Northern Railroad. (He stayed off the corporate ladder altogether in earlier life, working on Capitol Hill and then as a partner in a law firm in Seattle, his hometown.) Each time, he may not have jostled his way to the top but he was ready when the chance came. At Western Airlines, for example, a strategy paper he had written on the airline's future helped to land him the chief executive's role. “Chance favours the prepared mind,” he says.

Mr Grinstein's longstanding association with Delta—he joined the board when it merged with Western Airlines—certainly gave him the advantage of familiarity when he took over. He knew the company; just as important, people at the company, particularly those who came originally from Western, knew him and could vouch for him. His experience of turnarounds also counted in his favour. At both Western and Burlington he had taken over as chief executive during a period of restructuring. He admits a preference for transforming organisations, rather than keeping them ticking over. “I'm not sure I would play a meaningful role at a company that was operating well,” he says.

Delta fitted the bill perfectly. Like other American airlines, it had been poleaxed by the attacks on September 11th 2001. Unlike others, a healthy balance sheet meant that it had been able to keep on borrowing money after other airlines had sucked in their spending. Debt surged and wages stayed stubbornly high. Although some cost savings were made, revelations that managers had awarded themselves generous pension packages and bonuses undermined pay negotiations with Delta's pilots and prompted a crisis that led to Mr Grinstein's appointment.

Winning over Delta's staff was critical. Mr Grinstein held meetings with employees around the country and was careful not to soft-soap the message. “We had a very tough hand to play—the company had suffered a heart attack,” he says. His straight talking was backed up by action on executive pay, as the top brass took pay cuts. And as Delta exits Chapter 11 this week, the rewards are being carefully spread: non-unionised employees will share $480m in cash and shares, profit-sharing schemes are being introduced and management payouts are being linked to future performance. Mr Grinstein himself is foregoing any payout from Delta's emergence from bankruptcy, citing a “tacit understanding” that he would not benefit from sacrifices made by the staff. Delta's situation may be unique, and largesse may also come more easily at the twilight of a well-paid career, but Mr Grinstein says that there is a systemic problem with bosses' pay. “We are in positions of leadership and we have got to be good role models,” he says.

Thank you for flying Delta

Improved relations with employees could not save the company from entering bankruptcy in September 2005, however, when surging fuel costs helped to tip Delta over the edge. But they did smooth further rounds of pay and benefit cuts. And they helped Delta to fight off an unsolicited bid from US Airways in late 2006, as employees launched a “Keep Delta My Delta” campaign and Mr Grinstein used his connections in Washington to persuade creditors and lawmakers to reject the deal.

There have been some grumbles about his leadership. For one thing, Mr Grinstein was on Delta's board when it got into difficulties and when it approved those controversial executive-pension plans. Some critics believe a more receptive response to the US Airways bid would have been in creditors' interests. (Mr Grinstein retorts that regulators would have rejected a merger in any case and that a lengthy bid would have been damaging.) But few deny that Delta's bankruptcy has been deftly handled. A settled management team is in place; Mr Grinstein will not be drawn on his favoured successor, but wants an inside appointment. Annual bills have been cut by $3 billion. And Delta emerges from Chapter 11 an improved airline, with a simplified fleet, rejigged capacity at its domestic hubs and an expanded international network.

None of this guarantees future success for Delta, which posted its first operating profit for six years in 2006. Competition is fierce. The temptation to loosen belts must be resisted if the airline is to be ready for what Mr Grinstein calls the next “inevitable downturn”. By then he will be back in Seattle, spending time with his grandchildren and catching fish. Or might he have one more turnaround job in him? He thinks not. “I'm several years older, and a trifle wiser,” he says.

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Spanish business

Conquistadors on the beach

May 3rd 2007 | BARCELONA, LA CORUÑA AND MADRID
From The Economist print edition

AFP

Spanish companies have gone global, but now trouble is brewing at home with concerns over a property crash

IT WAS the early 1980s and a wholesale fashion business was booming around the Balmes street market in Barcelona. Unlike the traditional rag trade, these firms were striving to serve local shops and boutiques rather than the big chains. One wholesaler was Isak Andic, who arrived from Turkey as a 13-year-old and started selling T-shirts to fellow students at Barcelona's American High School. Mr Andic thought he could make more money on the retail side and in 1984 opened the first Mango store in the Paseo de Gracia. It was another step in the remarkable transformation of Spanish business.

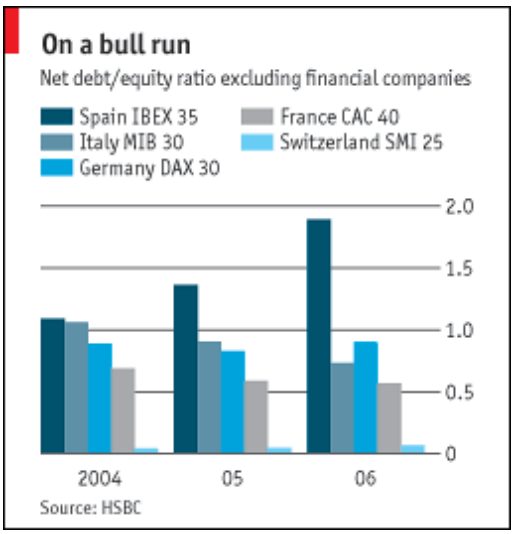
Mango is one of two highly successful Spanish clothing firms which have strutted onto the international stage—the other is the much bigger Zara, owned by the Inditex group. In terms of stores it recently overtook America's GAP to become the world's largest fashion retailer. Both firms have become case studies of post-modern businesses—design, marketing and retailing flair crossed with world-class information technology and logistics systems. Instead of using lead times of six months or so to mass-produce clothes that they hope will be fashionable, Mango and Zara pioneered “fast fashion”, in which they rush a smaller number of garments into shops within days when they spot new styles and appetites.

The two fashion companies are among a gaggle of Spanish conquistadors rapidly building global business empires. Many are much bigger than Mango and Zara, although sometimes less well-known abroad. Firms like Santander, a huge banking group, and Ferrovial, a construction giant, have spent billions buying foreign businesses. Often this has been financed with large borrowings. As a result, the Spanish stockmarket reflects a rising level of corporate debt (see chart).

And therein lies the worry. Spanish companies' overseas adventure has been boosted by the transformation of their home economy from an also-ran into one of the star performers of the European Union. That 14-year domestic expansion has, in turn, been buoyed by low interest rates and a construction and property boom that shows signs of suddenly receding. Does this mean Spain's new global champions will find themselves beached?

As if in defiance of last week's 3% plunge in Spain's stockmarket—caused by property worries—its firms have continued their global advance: Telefónica, already the world's fifth-largest telecoms firm (and Europe's largest doing both fixed and mobile telephony),

moved to become a big shareholder in Telecom Italia (see article). It already has a string of overseas businesses in Latin America and Britain. And a subsidiary of Metrovacesa, a Spanish property company, bought the Canary Wharf headquarters of HSBC, a banking group, for £1.1 billion ($2.2 billion)—the biggest-ever single-property deal in Britain



Property prices are still rising in Spain, but the rate of increase is slowing. The housing market represents about half the total construction work. Much of the property is bought as second homes by the Spanish and by other Europeans, who move to Spain to enjoy the climate or to holiday and retire there. A lot of the market is speculative. So far there has been no sign of mortgage defaults hurting banks, as with the collapse in the “subprime” lending market in America, which was also fuelled by easy credit.

But the stockmarket wobble raises concerns. Spain has achieved one of the most rapid increases in wealth in the euro zone, but it remains stuck with an unbalanced economy and low domestic productivity. Its new global champions have built successful businesses, but only in certain industries. As a whole, Spanish business remains limited in its scope. If trouble is brewing at home, these companies need to be global enough to draw on markets outside Spain.

The new conquistadors mostly consist of a group of banks, builders and service companies. There is little manufacturing in Spain. Its steel mills and shipyards are relics of its pre-democratic days as a closed economy. Most of Spain's manufacturing is carried out by branch factories, such as those expanded by France's Renault and Germany's Volkswagen to take advantage of cheap labour when Spain entered the EU in 1986. But now cheaper labour is available in eastern Europe. Nor does Spain have much of a tradition in high-tech industries, although it is becoming a bigger contender in aerospace as a shareholder in the EADS group, which makes Airbus aircraft.

Holidays and retirement

Take away construction and tourism (60m tourists arrive every year in a country of 43m people) and there is not much left. Moreover, tourism revenues have flattened as more foreigners now own holiday or retirement houses and so spend less on hotels. And there is only so much land (and, as important, water) for more development on the Mediterranean coast.

Yet the years spent by Spain using EU regional-development aid to build its own motorways and gleaming airports allowed it to develop businesses that could do the same thing abroad with services and infrastructure. A decade ago the government helped to promote this by offering tax relief on the value of the “goodwill” that Spanish companies pay when they take over foreign firms. That policy has since come under attack from the European Commission, but now that the international movement is under way, the tax break no longer counts for as much

The bigger motivation is to seek growth outside Spain, which if successful would help cushion Spanish companies from a domestic downturn. A lot has been achieved. The expansion started in Latin America, where Spanish businesses spent some $80 billion in the 1990s. Spanish banks, utilities and telecoms companies now challenge American firms right across Latin America. Their operations are spreading to North America, Europe and China. The advance party is often led by Spanish banks, particularly the two biggest, which originally hail from the Atlantic coast.

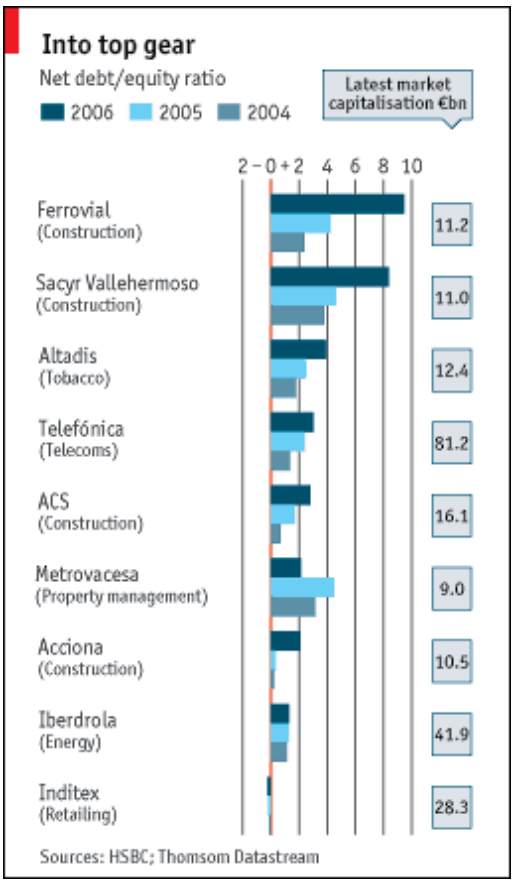
The city of Santander made its fortune trading with the Spanish colonies on the other side of the Atlantic. The Santander group put modern Spanish banking on the international map when in 2004, with the help of its long-standing ally, Royal Bank of Scotland, it bought Abbey, a British bank. The pair have teamed up again in a battle to take over ABN Amro, a Dutch bank. Santander is the biggest bank in the euro zone by market capitalisation, and number one in Latin America. It has interests in American retail

banking, including a 25% stake in Sovereign Bancorp. In terms of profits, it ranks seventh worldwide.

BBVA has its banking roots in Bilbao. It owns Mexico's second-biggest bank and recently added to its American portfolio with a successful bid for Compass Bancshares. It has also announced a move into Asia through a strategic alliance with the CITIC group, a Hong Kong conglomerate that owns a bank in mainland China. BBVA has spent €1 billion ($1.4 billion) to take nearly 5% of China CITIC Bank and a 15% stake of CITIC International Holdings.

The Spanish banks have been helped in their advance by the supremacy of their IT systems. They have made great technological leaps in the past two decades with systems that build profiles of customers so that they can see who can afford to take on more loans. Francisco González, chairman of BBVA, says he does not run a bank but “an industrial financial company”.

“The bank of the future will be a distribution-services company,” predicts Mr González. Last week Santander reported a 21% increase in first-quarter net profits to €1.8 billion largely on the back of a strong expansion in loans and services fees in Europe and Latin America. Mr González believes the bank will make money from knowledge it gathers about customers to sell them products such as health care, education and even funerals.



Not on the Costas

How did Spain produce such able bankers? David Allen of the Instituto de Empresa, a business school in Madrid, identifies a combination of factors. Spanish education improved vastly in the 1960s and 1970s, providing a growing pool of talent. Given the lack of industry in which to find well-paid jobs, those who wanted more than work in construction or tourism on the Costas flocked to banking.

The other important factor was competition: foreign banks were allowed to enter Spain in the late 1970s, causing local banks to sharpen their strategies and invest more in technology. Santander and BBVA, together with Telefónica, account for more than a third of the Spanish stockmarket's total capitalisation. These three companies are also among the most actively traded stocks in the euro zone.

Following the banks were the construction firms. They not only diversified geographically from Spain, but also moved into related industries. The most swashbuckling is Ferrovial, which started out building Spanish railways in the 1950s. Its £10.1 billion takeover last June of BAA, the company that owns three of London's airports and four more elsewhere in Britain, was a spectacular deal. With two allies from Canada and Singapore, it ended up with 62% of BAA's equity. The British airports group now accounts for more than half of Ferrovial's profits—and some 70% of its €33 billion of debt, according to calculations by BPI, a Portuguese bank. Ferrovial was able to borrow heavily and put up barely £580m of its own money to take control of a company with a lock on Britain's air-travel industry through its ownership of Heathrow, the world's busiest international airport.

The justification for such a high level of debt is that airports are like public utilities with a predictable income and a pricing regime (in Britain, at least) that guarantees a reasonable return on capital. Indeed, British regulations favour capital spending, which means that BAA has a big pipeline of construction projects ahead of it.

Spanish businesses have spent nearly $60 billion snapping up British firms, culminating in the recent purchase of Scottish Power by Iberdrola, a Spanish utility. Britain's open economy has made it a happy hunting ground, because the Spanish encounter less opposition than in France and Italy. The Abertis services company last year had to drop its attempt to acquire an Italian motorway company because the government there changed the rules to make it less attractive. Now the French are shaking in their shoes over a bid by Sacyr Vallehermoso, a Spanish construction company, for the historic Eiffage construction group, which built the Eiffel Tower.

The Spanish are finding opportunities farther afield, too. Rafael del Pino, Ferrovial's boss, has teamed up

with Australia's Macquarie Group to buy two motorways in America, the Chicago Skyway and the Indiana Toll Road, through its quoted subsidiary Cintra (in which it holds 62%); it also manages a motorway in Texas with the state government. Altogether Ferrovial operates 22 motorway concessions covering 2,500km (1,553 miles). The Spanish group also bought Amey, a British services and project-management business that maintains three London Underground lines. Ferrovial sold its housing and property business for €1.6 billion, plus €600m of debt, last December—apparently with perfect timing.

Windmills

Other housebuilders have spread their risks. Acciona, another construction company, is, with the help of Italy's Enel, buying control of the biggest Spanish electricity company, Endesa, and in the process it is fending off a hostile bid from Germany's E.on. The attraction for José Manuel Entrecanales, who succeeded his father at the top of the company three years ago, is Endesa's hydroelectric dams and its 1,800MW of wind turbines. Mr Entrecanales points to calculations from the International Energy Agency that show hydroelectric and wind power generation each growing by more than 5% on average for the foreseeable future, compared with average growth of less than 2% for all sources of energy.

Mr Entrecanales is now chasing Iberdrola to become the world leader in wind farms. By 2009 he aims to have nearly 8,000MW of wind-turbine capacity. The company owns wind farms in Alberta, Germany, France and Australia, plus a joint venture in China. Even before its acquisition of Endesa, Acciona's energy business had grown to 38% of earnings by the end of last year, compared with less than 12% for its property business.

Energy has also attracted the attentions of Sacyr Vallehermoso, a construction firm with a 20% stake in Repsol YPF, a Spanish oil company with interests in Argentina, the Caribbean, the Gulf of Mexico and North Africa. The dealmaker is Luis del Rivero, boss of Sacyr, who has seen the stockmarket value of his construction and services company rise nearly fourfold in the past three years. Repsol operates in 30 countries, often working with national oil companies. But Mr del Rivero has his eye on Repsol's strong position in natural gas.

AFP

Reflecting a shaky building site

Privately, a number of Spanish bankers and managers worry that some of the ambitions of Spain's big companies could be riding on too much borrowed money. Their loans are sometimes backed by their stakes in other quoted companies. This means a big fall in the Spanish stockmarket, triggered by a property downturn, could have a damaging effect even to companies that have diversified.

For Spain as a whole, that is not the only concern. Martin Varsavsky, an Argentine who founded three high-tech companies in Spain, thinks that outside the big companies there is a lack of entrepreneurship. He blames neglect of science in the Franco era: he points out that Israel, with a population one-tenth of Spain's, has more business start-ups. He thinks Spaniards are generally risk-averse.

Mr Varsavsky's latest venture is a wireless-internet business called FON. Customers buy FON's routers and become “Foneros”. They get free Wi-Fi access in return for allowing free access to their router by other Foneros. He hopes to build a global network of at least 4m customers pooling their bandwidth. Such ventures have been tried before with no success, but Mr Varsavsky is backed by powerful forces, including Google and Sequoia Capital, a Californian venture-capital fund.

If Mr Varsavsky is right, Spain needs more local innovators. In many countries these tend to gather in business “clusters”, as in Silicon Valley. The nearest thing Spain has to a cluster—apart from its holiday resorts—is the talent that pours out of its famous design school in Barcelona. Both Mango and Inditex have some of their design studios in the city.

Both the fast-fashion champions have operations spread around large parts of the world. Mango follows a modern outsourcing model. It has 880 stores in 83 countries, fed by garments that speed through its logistics centres at a rate of 30,000 an hour. These generate annual sales of €1.1 billion—three-quarters of that outside Spain.

Sale or return

Mango's business model consists of franchises, completely outsourced production in Asia, and sophisticated IT and logistics systems to ensure goods arrive on the shelves in ten days on a sale-or-return policy. Mango's main role is to design garments and arrange their distribution. Its first overseas expansion was to nearby Portugal in 1992. A quarter of its 6,000-strong labour force is employed in its Barcelona headquarters.

Inditex, based in La Coruña in Galicia, a region in north-western Spain, does the clever bits of production—cutting and finishing—in its own factories in Spain, Portugal and North Africa. It has 3,207 shops in 64 countries. About a third are Zara stores, and the rest Inditex's other brands, such as Pull and Bear, and Massimo Dutti. Inditex has tripled sales in six years to over €8 billion, some 60% of it abroad.

Amancio Ortega, Inditex's founder, became Spain's richest man after the heavily over-subscribed stock was floated on the stockmarket in 2001 and soared by half in 12 months. Today the fit-looking 71-year-old still appears in Zara's offices most days after his two-hour workout in the gym. But the chief executive charged with rolling out new stores at a rate of over 400 a year is Pablo Isla. The first Zara store has just opened in Beijing. And with only 24 outlets in America, it still has scope for huge expansion there. “The 1970s was all about opening in Galicia,” says Mr Isla. “The 1980s and 1990s were about Spain and Europe. But since 2000 we have been pursuing true internationalisation.”

Those Spanish companies that have boldly escaped the confines of their home market are betting they can survive a domestic downturn despite their huge debts. But entrepreneurs are still needed to broaden the base of Spanish business or there will not be much else beyond tourism. As Ana Patricia Botín, head of Banesto, a retail bank in the Santander group, says: “It is all very well being the Florida of Europe, but it would be nice to be the California as well.”

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Online payments

A battle at the checkout

May 3rd 2007 | MOUNTAIN VIEW AND SAN JOSE
From The Economist print edition

Claudio Munoz

PayPal dominates electronic payments, but Google's growing checkout service may prove a vigorous challenger

Get article background

IN HIS celebrated book, “The PayPal Wars”, Eric Jackson described how in its early years the internet firm had to battle crotchety regulators, identity thieves, volatile markets, scrappy rivals and even scheming Mafiosi. It has since gone on to become the undisputed master of online-payments processing. Now, however, to stay on top, it must leap from being merely big to ubiquitous. And it will have to do so while fending off new competitors—especially Google.

PayPal was founded in 1998 as a way of moving money between Palm Pilots. It soon became a popular way to pay for goods on eBay. So successful was it that in 2002 the auction site ditched its own payments service, Billpoint, and paid $1.5 billion to bring PayPal under its wing. It now boasts 143m accounts, double the number it had two years ago. Already international—35m of the accounts are in Europe, 15m of those in Britain alone—it is striving to become truly global. Next week it is expected to announce that the number of countries in which PayPal transfers can be made has risen to 190 from 103.

This growth has turned PayPal into the star of the eBay stable. In the first quarter its net revenues rose by 31%, much faster than those of the core auction business, to $439m. PayPal now accounts for a full quarter of group sales. But as eBay comes to rely more on PayPal, PayPal is trying to diversify away from eBay. In the past year, “off eBay” volume has climbed from 33% to 39% of the total.

Having achieved “critical mass” through its ties to eBay, the job for PayPal now is to persuade more online retailers to accept it as a form of payment, says Rajiv Dutta, PayPal's president. “We have more account holders than American Express, yet the vast majority of e-commerce sites don't offer us,” he says.

One problem is the time involved in adding a PayPal checkout function to a retailer's site. So the company has brought the code-writing part of the work down from weeks to days. Having signed up millions of small e-tailers through eBay, it is now trying to win over more large ones. Mr Dutta says one selling point is PayPal's low fraud rates, which are around a third of the norm for online merchants. Its latest security initiative is a digital key fob, linked to customers' accounts, whose security code changes every 30 seconds. This is proving popular, helped by PayPal's willingness to sell it below cost.

But safety is nothing without convenience, hence the rush to roll out services on new platforms, such as fund transfers via Skype, eBay's web-telephony arm (launched in March) and mobile phones (in beta testing). The firm has also come up with a clever, secure way to use PayPal on websites that do not have a “Pay with PayPal” button: a “virtual debit card” that pulls money from the user's PayPal account using a

16-digit number, which changes with each transaction.

Such ingenuities show that the only limit to PayPal's growth is the scope of its vision, says Mr Dutta. However, there is another threat: Google's small but potentially powerful Checkout service, which was launched last summer.

PayPal's managers play down the danger. They point out that Checkout does only a part of what PayPal does: that is, allowing users who store their credit-card details with it to buy goods at participating sites without having to key in the information each time. That makes it a mere “wrapper around Visa and MasterCard” rather than a full-blown competitor, argues PayPal's Stephanie Tilenius.

Online trolley wars

But Google has other advantages. Crucially, Google is prepared to run Checkout at break-even, or even at a loss, because it sees the service as a useful way to bring more advertisers to its all-important AdWords business, which charges retailers for search-related “keyword” ads. Checkout has already signed up a quarter of the top 500 online retailers, largely thanks to its offer of free payments processing until 2008. Once the promotion ends, every dollar a merchant spends advertising with Google will entitle it to $10-worth of free processing. “The way we think about Checkout is not as a standalone business, but as a driver of the Google network,” says Ben Ling, Checkout's boss.

This willingness to subsidise—investment is running at over $30m a quarter—makes Checkout a potentially formidable foe. Gwenn Bézard of Aite Group, a consultancy, thinks PayPal will eventually suffer if Google continues to throw money at its payments service, because many consumers will want to use one or the other system, but not both.

Hence eBay is being forced to take Checkout seriously—so seriously, in fact, that it has added Google's system to its list of prohibited payment methods. The reason given for the ban, that Checkout lacks a long enough record, rings hollow to most outsiders. Last month a group filed a class-action lawsuit against PayPal alleging, among other things, that the block on Checkout is illegal. (PayPal says it will vigorously fight the suit.) In another sign that PayPal has Google on its mind, it recently launched a payments and search advertising partnership with Yahoo! that looks remarkably like Checkout.

But not everything is going Google's way. A survey in January found that only 18% of Checkout users rated their experience as good or very good, compared with 44% for PayPal. And Checkout's share of payments on some big sites, such as Toys “R” Us and Sports Authority, has been falling since the holiday season ended, despite inducements to retailers (estimated at over $20m) to make its “badge” more prominent. It may have to increase its bribes in order to gain traction.

Furthermore, Checkout may itself face threats as it grows. At this year's Davos pow-wow, Bill Gates said Microsoft was thinking about a move into online micropayments. And then there are the established card consortiums. To the extent that PayPal and Checkout help to move cash and cheque purchases online, where they are subject to transaction fees, Visa and MasterCard welcome them. But they also worry about being cut out of the process as the payments upstarts become the “interface” with which more online shoppers deal directly. With combined annual volumes of over $6 trillion, the card companies could put up quite a fight.

The outcome of all this manoeuvring is hard to predict. What is certain, however, is that it is good for both merchants and consumers. Retailers have rarely seen processing discounts like those now being offered. Saving on transaction fees of 2-3% can add several million dollars a year to profits. As Google and PayPal compete to make the checkout less cumbersome, shoppers will find it easier to complete their purchases. And if fewer abandon their carts before paying, retailers will see an uptick in sales. Google's foray into payments may prove testing for PayPal, but it looks like being great for e-commerce in general.

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America's economy

Stag or 'flation?

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Should the Fed worry more about rising prices or weak growth?

Get article background

WITH skinny trousers and Mary Quant dresses, fashionable Americans are taking their cues from the 1960s this spring. For financial markets and central bankers the retro theme comes from a different, less pleasant, decade. With growth slow yet inflation stubborn, America is facing a weak echo of that 1970s scourge—stagflation.

The economy grew by only 1.3% at an annual rate in the first three months of the year, whereas the overall GDP deflator—the broadest output-based measure of price pressure—rose at an annual rate of 4%. The deflator for “core” personal consumption expenditures (PCE), which excludes fuel and food, rose more modestly in the first quarter. But this favourite inflation yardstick of the Federal Reserve was still outside its comfort zone.

By the standards of the 1970s, when inflation was in double digits and unemployment not far behind, today's plight is hardly grave. Jobs are plentiful and price pressures, by historical standards, are low. But for today's central bankers, determined to maintain their credibility as inflation-fighters, it is distressing all the same. Despite a year of sluggish growth, America's underlying prices have been rising uncomfortably fast.

So far the central bankers have talked tough and done little. They have kept short-term interest rates steady at 5.25% since June, but have made clear that inflation is what worries them most. That bias is likely to be repeated at the Fed's next policy-setting meeting on May 9th.

Less obvious is what will happen over the next few months. Financial markets reckon the Fed will eventually fear recession more than inflation. The price of Fed and eurodollar futures suggests that the central bankers are very likely to cut rates by at least a quarter point in the second half of the year, with more loosening likely early in 2008.

That may not mean much. Financial markets have consistently overestimated the central bank's willingness to cut rates in recent months. Look at the sources of inflationary pressure and it is hard to see the Fed dropping its guard. Energy costs have risen sharply (petrol prices are up 80 cents a gallon or more than 30% in the past three months). The dollar is down, hitting a record low of 1.366 against the euro on April 30th. Virtually every measure of wage growth has been accelerating, although increases in productivity have been lacklustre.

Traditional danger signals, in short, all point one way. But they may be becoming less important. The statistical evidence suggests that, thanks to the central bankers' credibility as inflation fighters, America's underlying rate of price increases has become less vulnerable to transitory pressures, such as rising energy or food prices. The relation between unemployment and inflation has also weakened. And with profit margins fat, America's firms have room to absorb higher wage costs.

In the Fed We Trust

What matters most, as several Fed governors have pointed out in recent weeks, are people's expectations of future inflation, which in turn depend on their faith in the central bankers. Provided people believe in the Fed's determination to keep inflation low, inflation expectations will stay low. That seems to have been the case. Most gauges of long-run inflation expectations, such as surveys of professional forecasters, have been relatively stable, at 2% or just above, for the Fed's preferred inflation gauge. However, one measure—the Michigan consumer survey—has jumped a fair bit in April, thanks to higher fuel costs.

Despite the underlying inflation risks, a statistical quirk may push core inflation down in the coming months. Housing costs make up a large chunk of America's inflation basket (almost 40% of the core consumer-price index and 20% of the Fed's preferred measure). Since the statisticians lack a direct measure of housing costs for homeowners, they impute a cost based on rents. As the property bubble burst in 2006, more people decided to rent houses rather than buy. That pushed up the imputed cost of housing. Now the supply of rental properties is rising as beleaguered owners try to rent out their unsold flats. With vacancy rates high, rents may slow. March's core PCE index was flat, bringing the 12-month increase down to 2.1%, barely above the Fed's informal limit. It may fall further in the coming months. Exclude rents and it looks even better (see chart).

Less clear is whether core inflation at 2% would calm the central bankers enough for them to cut interest rates. One problem is that Fed officials have not agreed on what their optimal inflation rate is or how quickly they would like to reach it.

Some of the board's more hawkish members would probably prefer core consumer inflation to be well within the central bank's comfort zone of 1-2%. Others might be content with something closer to 2%. One governor, Frederic Mishkin, recently made clear that getting inflation below 2% would demand a reduction in inflation expectations that could be “difficult and time-consuming to bring about”.

Much will depend on just how weak the economy continues to be. So far, sub-par growth has not brought the higher unemployment that the central bankers expected and want. And their official forecast is that GDP growth will strengthen in the second half of the year.

The most recent evidence is mixed. Durable-goods orders suggest investment spending may be recovering from its recent funk. A widely watched index from the Institute for Supply Management showed manufacturing was unexpectedly strong in April. With a weaker dollar and perky growth in the rest of the world, exports are likely to grow fast.

But news from the housing market is getting ever gloomier. An index of pending home sales fell unexpectedly to its lowest level in four years in March. And, hit by higher fuel costs as well as falling house prices, consumers may finally be flagging. Americans cut their spending by 0.2% in real terms in March.

Add these mixed signals on growth to the uncertainties about inflation and the chances are that the Fed will simply do nothing for a good while yet. Unlike in fashion, in central banking the underlying trend can take a while to spot.

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Buttonwood

Covered in shame

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Investors, like magazines, have a terrible tendency to extrapolate

JOE KENNEDY, father of the assassinated president and a renowned speculator, once said that the time to sell shares was when shoeshine boys were giving out tips. But others say the ultimate sell signal is when the media latch on to a story.

Business Week's famous cover "The Death of Equities" has become a textbook case of the media getting it wrong. To be fair, it appeared in 1979, three years before the great bull market got under way. Nevertheless, the Dow Jones Industrial Average was at 800 back then. Today it is at 13,000. (And this newspaper has got it famously wrong once or twice: remember the cover in the late 1990s that talked of oil at $5 a barrel? Surely not.)

An academic study* has now tried to assemble some facts to test the long-held impression that the media usually back the wrong horse. Rather than looking at predictions about stockmarkets or commodity prices, the study focuses on coverage of individual companies.

The academics looked at companies that featured on the covers of three business magazines, *Business Week*, *Fortune* and *Forbes*, over a 20-year period. They grouped the 549 cover stories into categories depending on whether the coverage was very positive, neutral or very negative. Then they looked at how the shares of those companies had performed in the 500 days before and the 500 days after the covers appeared.

The researchers found that there were a lot more positive than negative stories, an echo of the well-known tendency for stockbrokers to issue more buy than sell recommendations. This may well reflect the legal difficulties involved in mounting a full-blown attack on an established company's reputation.

Unsurprisingly, the companies that received the most positive coverage had performed well before the stories were published: their share prices had, on average, outperformed the index by 42.7% once adjusted for sector and size. Those companies suffering negative coverage, in contrast, had underperformed by 34.6%.

After the stories appeared, however, the positions switched. The most negatively portrayed companies managed to beat the market by an average of 12.4%, whereas the outperformance of the media darlings fell to just 4.2%. This difference is not statistically that significant. What matters is that if news is sufficiently good or bad to catapult a company onto a magazine cover, then it is already reflected in the share price. Or, as the academics put it, "positive stories generally indicate the end of superior performance and negative news generally indicates the end of poor performance."

You could see this as proof that markets are generally pretty efficient, or at least quicker on the uptake than the average hack. Or you could see it as evidence that people (including journalists) have an ingrained tendency to assume that past trends will continue.

In a recent speech Bill Miller, a market-beating fund manager at Legg Mason, highlighted the performance of the "uncommon stocks" recommended each year by Lehman Brothers. Sometimes these stocks outperformed the market over the following 12 months; sometimes (as in 2000-01), they lagged a long way behind. But almost every stock had substantially outperformed the S&P 500 before it was recommended. Indeed, for any such list, investors would have been far better served had they been given it 12 months earlier.

This phenomenon is known as "recency bias", the tendency to be excessively affected by the pattern of recent data. Brokers may subconsciously favour "hot stocks" when making recommendations, since they believe clients will also favour such shares. Picking a poor performer might elicit the response: "Why are they recommending this rubbish?"

Indeed that bias, along with other psychological tics identified by academics, may be a reason why markets are ultimately inefficient. There is some evidence that share prices undershoot fair value in the short term (as investors are slow to react to individual pieces of good—or bad—news) but over-react in the medium term (extrapolating present trends, like Buzz Lightyear, to infinity and beyond).

This should, in theory, allow cooler heads to make money. In the absence of a helpful shoeshine boy, magazines can play a small part in this overshooting. The academics suggest that, for those who are shorting a stock (or betting the price will fall), a cover exposé of that company is a good time to unwind the shorts.

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* "Are Cover Stories Effective Contrarian Indicators?" By Tom Arnold, John Earl and David North, Financial Analysts Journal, Volume 63, Number 2.

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Asian investments

The dark side

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For better or for worse, obscure private markets are booming in Asia

TWO years ago a flock of wealthy hedge funds and private-equity firms converged on Hong Kong and Singapore, sensing vast opportunities in Asia. They soon found a problem: where to put their money. Competition was so fierce for new listings that they had trouble getting a glimpse of them, let alone being allocated shares. They found it almost as hard to take part in buy-outs. Apart from in Australia, governments in the region tend to make life hard for private-equity buyers. This is particularly true in China, the biggest and most frustrating market of them all.

But there is nothing like alternative investors sitting on piles of idle cash to get investment bankers excited. Aware that in Asia small, entrepreneurial companies often lack the access to debt and equity markets enjoyed by their Western counterparts, they resolved to play the part of matchmaker.

The result is a growing market in which hedge funds, buy-out groups and investment banks, club together to finance private deals for firms that are too small for initial public offerings, or are growing so fast that they would rather wait. Investments come mainly through an off-market convertible-debt-style security, paying interest (sometimes in cash, sometimes in kind) and an equity kicker priced through an eventual public share offering or at a set value. There are four common factors: unlike private equity, the investment does not give managerial control; the terms are set by private contract rather than public securities law; the timeline is finite—typically three years; and there is almost no public information on them.

Bankers in Asia are gossipy, however, particularly when they have a good story to sell; and there are too many such deals to escape notice. In Hong Kong and Singapore, hedge funds say they hear pitches about them at least once a week.

The investment banks act as more than middlemen; they may also co-invest. Goldman Sachs has done 40 deals and taken stakes in each one. Deutsche Bank and Merrill Lynch have each done more than 20, worth several billion dollars. Most banks take part, sending out small armies to track down promising companies, before selling slices of the deals to investment syndicates. The funds have too few people to source the deals themselves.

A few highly lucrative transactions first set the ball rolling. In 2005 Goldman and a group of private-equity firms made a $100m non-controlling investment in Suntech Power, a Chinese solar-energy company. A year later it floated and its shares have risen 15-fold. Also in 2005 Merrill Lynch and nine hedge funds financed a leveraged buy-out of Medco Energi, an Indonesian oil-exploration company, on behalf of the family that lost ownership during the Asian crisis. Within months the family had taken back control of the company and the investors had earned returns of more than 50%.

As in most leveraged deals, abundant liquidity has given recipients of money a big edge over providers. Initially, equity was to be available at a discount to a public-offering price (assuming that there was to be an IPO); then it was to be at the offer price; now, it is at a premium to the offering price, which makes it a good deal only if the price of shares jumps a lot once they are issued. The interest rate companies pay has also fallen.

But those terms have not dampened enthusiasm. Investors have sought to spice up returns using a version of the “carry trade”—they have borrowed from Japanese banks at 1% to invest in deals that pay 7%. The early deals included strong legal protection, such as a stipulation that disputes would be heard in the courts of Hong Kong or Singapore. These have become less common as worries about what could go wrong have waned. At first, too, Chinese deals used a complex structure involving the transfer of ownership to the Cayman Islands, which made the process of putting in money, and getting it back, far easier. In September China put a halt to such transfers, though those agreed on before then are still going ahead.

Because the deals are opaque, there are no aggregate performance figures. Banks are loth to admit to losses but cracks are beginning to show. In one of the largest of these private deals, China's Asia Aluminum received more than $450m last year in debt and warrants; since then its ambitious expansion has suffered from delays and cost overruns, according to Moody's Investors Service, a credit-rating agency that looks at its publicly rated debt. In another large deal, APBW, a cell-phone company in Taiwan, received a large loan. In March the former chief executive of its parent company was indicted for embezzlement. Investors must be jittery.

Some disasters may well be lurking—if not with these companies, then others. Almost all today's transactions will mature between 2008 and 2011. Inevitably there will be tears; if the market for public offerings cools, expect howls.

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A common EU tax base

Harmony and discord

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To some a dream, to others a nightmare

EUROPEAN politicians began puzzling over tax harmonisation in 1962. It was the year Americans dedicated themselves to sending man to the moon before the end of the decade. American space travel was a triumph; Europeans have had a harder time realising their dream. But now European Union plans for a common tax base have begun to gain pace and may even take wing, in spite of several countries' efforts to stop them.

On May 2nd the European Commission gave an upbeat report on its progress towards legislation on a common consolidated corporate tax base. László Kovács, the EU's tax commissioner, said a proposal would be ready in the first half of 2008 and tentatively suggested that a common base could be in place some time “after 2010”. Under the commission's rough plans, companies would adopt a tax base for their EU-wide activities, rather than face a tangle of 27 different regimes. The commission says that this will lighten compliance costs and boost the single market. Many of the details, such as the delicate issue of how to split revenues between countries, are still to be hammered out. But one red line has been drawn: national exchequers will continue to set their own rates.

This line on tax sovereignty has become a mantra for the commission, which wants to convince members of its benign intentions. But just talking about tax harmonisation brings some finance ministers out in a rash. So rows should be expected. Yet the plans cannot be dismissed out of hand. In April 2006, at an informal meeting of finance ministers, 12 countries (including new members Romania and Bulgaria) strongly supported a common tax base; eight cautiously backed discussions; only seven were die-hard opponents.

The opponents included flat-tax happy Estonia, as well as Britain and Ireland, both countries with theological objections to ceding tax powers to Brussels. Ireland's government fears a harmonised base would be a slippery slope to common rates, eventually forcing it to raise its highly competitive corporate tax rate of 12.5%. Peter Cussons, a senior tax partner at PricewaterhouseCoopers, thinks tax sovereignty is becoming “the Emperor's new clothes”—as two decades of rulings from the European Court of Justice have constrained member states' fiscal independence—though not in rate-settings.

Despite the opposition, the plans could still go ahead. In similar fashion to the euro zone, a core group could advance under the union's provisions for “enhanced co-operation”. Proponents look sure to get support from the eight member states required, although getting it past a qualified majority vote will be tougher. In an odd quirk, new research suggests the commission's plans could benefit those countries most opposed to it. Oxford University's Centre for Business Taxation has run the numbers and found Britain and Estonia would both get higher tax revenues. They would gain at the expense of Germany—one of the keenest supporters of the proposals. Such figures are unlikely to sway opponents, and could unsettle some of the waverers. But harmonising tax bases no longer seems like reaching for the stars.

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Corruption

Rules of the road

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At least law-breaking officials respect the laws of economics

IN MANY parts of the world, greasing the palms of corrupt officials is a fact of life. For lorry drivers in poor countries, for example, it can be even more commonplace than paying tolls or taxes. The extortionists are often armed police or soldiers, manning roadblocks, who make little attempt to pretend what they do is legal. Yet, although such people may operate outside the law of the land, they do obey the law of supply and demand.

AP

See? Clean hands

That, at least, is the finding of a recent study* of illicit transactions in Indonesia. In a rare attempt at documenting bribery, it shows how crooked officials act as independent monopolists, maximising their profits and employing sophisticated pricing schemes in ways that have an economic logic, as well as a criminal one.

The authors studied bribes paid by lorry drivers along two main roads in Aceh, an Indonesian province where separatist guerrillas had long been active. Over nine months in 2005 and 2006, data gatherers accompanied the truckers on 304 trips to and from Aceh, recording more than 6,000 illegal pay-offs at military roadblocks, police checkpoints and weigh stations. During the 637-kilometre (396-mile) trip from Medan to Meulaboh, for example, drivers typically passed through 27 checkpoints and forked out a total of $23 in bribes, representing roughly 13% of the cost of their trip—more, even, than the total wages of those in the truck.

In the early stages of each trip, transactions were typically conducted without negotiation—at each stop, drivers simply handed over a few thousand rupiah ($0.50 to $1.00) or a couple of packs of cigarettes. As the trucks neared their destination, however, checkpoint officials demanded increasingly larger sums. At each stop, drivers found themselves with a progressively stronger incentive to avoid hassle and safeguard their cargo, which gave the extortionists greater power over them.

Midway through the study, after the Indonesian government had signed a cease-fire with the rebels, it began a phased withdrawal of 30,000 troops, leading to the number of checkpoints falling by half. This gave the researchers the chance to see how the extortion market would adjust. As you would expect, the amount lost to bribery decreased—but only by 36%.

Fewer stops meant fewer bribes, but this was offset by a rise in the amounts demanded at the remaining checkpoints, whose operators, with entrepreneurial zeal, seized the chance to capture part of the newly liberated surplus. In fact, they behaved just like monopolists, setting their prices so as to maximise their

own revenue, without considering the response of the fellow at the next checkpoint, or whether their activities would deter truckers. The result was a textbook example of double marginalisation—when a chain of independent monopolists charges more, but receives less overall than a single monopoly.

These results have intriguing implications for stamping out corruption. In theory, a centralised system of bribery is better for both truckers and extortionists than a string of corrupt officials acting independently. Taking out a kingpin may yield splashy headlines, but it can actually increase the total amount paid in bribes if it destroys co-ordination among his henchmen. A better bet, say the authors, is to reduce the number of troops and police officers. That would, indeed, be a novel way of fighting crime.

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* "The Simple Economics of Extortion: Evidence from Trucking in Aceh", by Benjamin Olken and Patrick Barron.

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Economics focus

Saving grace

May 3rd 2007
From The Economist print edition

It sounds topsy turvy, but could higher interest rates boost Japanese consumer spending?

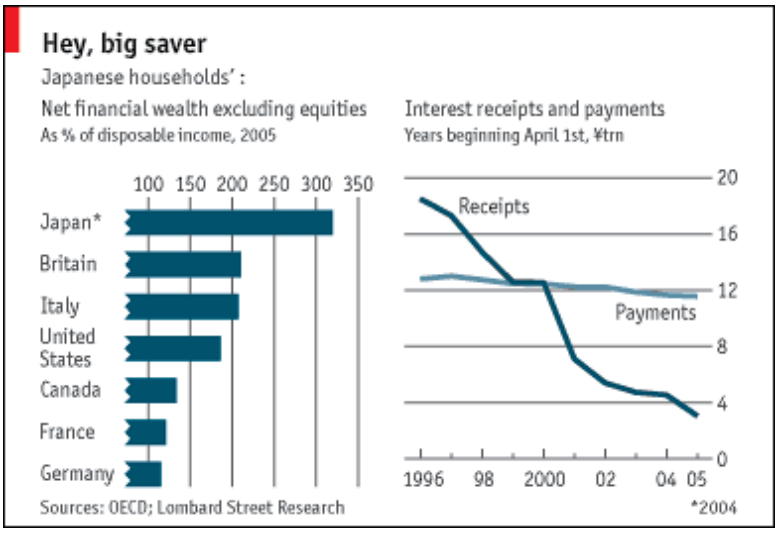
Get article background

EVERY economics student learns that higher interest rates depress growth by curbing borrowing and spending. That, according to the conventional wisdom, is why the Bank of Japan (BoJ) must continue to hold interest rates at historically low levels; a rise in rates would risk tipping the economy back into recession and deflation. Yet a few brave economists believe, to the contrary, that higher interest rates would actually encourage households to spend more, not less.

After holding interest rates at zero for most of the previous seven years, the BoJ has raised rates twice since last July, to 0.5%. But inflation has turned negative again, with the core measure of consumer prices (excluding food, including energy) falling by 0.3% in the 12 months to March. Last week, in its half-yearly outlook, the BoJ slashed its inflation forecast to only 0.1% in the year to March 2008. Moreover, although GDP expanded by a respectable 2.3% in the year to the fourth quarter, most of that growth came from investment and exports. Japan's economy cannot be removed from the sick list until consumers start spending again.

By most measures monetary policy is still incredibly loose: the rise in short-term rates over the past year has been partly offset by a drop in bond yields; and the yen's real trade-weighted value is at its lowest for at least 30 years. Nevertheless, most economists reckon that the BoJ should not even think about raising interest rates again until inflation picks up and consumer spending revives. Even by the end of next year, the market expects short-term rates to be only 1-1.25%.

The problem is that ultra-low interest rates risk creating economic distortions, such as the excessively weak yen, asset-price bubbles, or inefficient investment. Worse, low interest rates may themselves be discouraging consumers from opening up their wallets. Debtors gain from low interest rates but savers lose, and Japanese households have the biggest stash of savings (relative to their income) among developed economies. Their net financial assets, excluding equities, amount to 3.2 times personal disposable income, compared with a ratio of only 1.9 in America and 1.1 in Germany (see left-hand chart). Over half of Japanese households' gross financial assets are in deposits that earn adjustable rates of interest (in America the figure is just over one-tenth), but only one-quarter of their liabilities are at floating interest rates.



Brian Reading of Lombard Street Research estimates that Japanese households' net financial assets with

adjustable interest rates are equivalent to more than twice disposable income. But in recent years, savers have earned peanuts on their assets, whereas debtors have gained relatively little from low rates, because most of their debts are at fixed rates (see right-hand chart). Tadashi Nakamae, a Japanese economist, estimates that, using 1992 as a benchmark (when interest rates were over 5%), households have suffered a cumulative net loss of interest income of over ¥200 trillion ($1.8 trillion) as a result of near-zero interest rates, equal to fully 65% of annual income. It is hardly surprising that household spending has been depressed.

Japan's zero-interest-rate policy was designed to bail out debt-laden firms and banks, but today, with much healthier balance sheets, they no longer need that subsidy. Mr Reading argues that the BoJ should lift interest rates back to normal levels soon. But what is a normal interest rate for Japan? Based on the expected rate of nominal GDP growth this year, it is at least 2.5%. Mr Reading thinks it could be as high as 3.5%. He calculates that a three-percentage-point rise in rates would add 4.5% to disposable income and lift consumer spending by 3.5%.

But might increased consumer spending not be cancelled out by reduced spending by debtors: ie, firms and the government? Corporate investment is unlikely to be clobbered by dearer money, because interest payments are a small part of Japanese firms' costs and, just now, companies can finance most of their investment out of retained profits. Stronger consumer spending would also boost profits. Higher interest rates would increase the cost of government debt, but this need not lead to higher tax rates or lower public spending if faster growth in nominal GDP automatically lifted the tax take.

Squirrels or squanderers?

A more serious objection is raised by Julian Jessop of Capital Economics. The impact of higher interest rates on spending depends upon the relative size of the income effect (higher rates boost income and hence expenditure) and the substitution effect (higher rates encourage people to save more). For small changes in interest rates, says Mr Jessop, the income effect may dominate, but for large changes the substitution effect may be more important. His evidence is the sharp fall in the saving rate during the long period of low interest rates, from 14% of income in 1993 to 3% last year. (Although Japanese households have a massive stock of saving, their saving rate out of new income is now low.) Households may have decided it is not worth saving. A sharp jump in interest rates, however, might encourage them to squirrel more away rather than spend.

Another risk is that a sudden rise in interest rates would trigger a fall in share prices (though if higher rates did boost spending, and hence profits, share prices should eventually gain). A large increase in rates could also push up the yen as the carry trade unwinds (but, again, exporters could probably cope, since the currency is so competitive).

The theoretical case for raising interest income to lift Japanese consumer spending is persuasive, despite these risks. At the very least, it suggests that higher rates are unlikely to harm consumers, so the BoJ should try to normalise them as soon as possible to minimise economic distortions. Unfortunately, the BoJ is unlikely to have the nerve to test out the theory. Politicians will continue to argue that interest rates must not be raised much until spending recovers. Yet low rates keep consumers from spending as much as they could.

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The evolution of language

Gestures of intent

May 3rd 2007
From The Economist print edition

Evidence that the first words were movements, not sounds

NHPA

IN 1966 Allen and Beatrice Gardner, two psychologists at the University of Nevada in Reno, had a bright idea. They were interested in the evolution of language and, in particular, in the linguistic capabilities of great apes. Previous attempts to teach chimpanzees to talk had ended in failure and the matter was considered by most people to be closed. But the Gardners realised that speech and language are not the same thing. Many deaf people, for example, are unable to speak but are perfectly able to communicate by gestures that have all the attributes and sophistication of spoken language. Given the very different anatomies of the human and chimpanzee larynx, the Gardners suspected that previous experiments had failed because chimps are physically incapable of speech.

They therefore decided to try teaching a chimpanzee to sign in the way that deaf people do. And their chosen subject, a female chimp named Washoe after the county in which the university campus is located, proved an adept pupil. Though there is still debate about whether what Washoe learned was really equivalent to human language (for example, whether it had true syntax in which a change in word order changes meaning), there is no doubt that she learned a lot of words. She now has a vocabulary of about 200.

All of this, however, raises a second question. If Washoe and her successors can learn a complex and arbitrary vocabulary of gestures from people, do they have such vocabularies naturally? To examine that possibility Amy Pollick and Frans de Waal, of Emory University in Atlanta, Georgia, have looked at gestures and expressions in chimpanzees and their cousins, bonobos. In doing so they have added to the evidence that speech is a linguistic Johnny-come-lately. Language, it seems, started with gestures.

Aping others

Dr Pollick and Dr de Waal studied four groups of apes held in captivity. Two were groups of chimpanzees, and two were bonobos. As they report in the *Proceedings of the National Academy of Sciences*, they videotaped the animals' behaviour for several hundred hours over the course of 16 months in order to record three things: facial and vocal expressions, hand and foot gestures, and the behavioural context in which these expressions and gestures took place (eg, grooming, play, sex and aggression). Altogether, they identified 18 expressions, 31 gestures and seven sorts of behavioural context.

Signalling by facial and vocal expression is ubiquitous among primates. Signalling by gesture is confined to the great apes (who, in this context, include mankind). The researchers' hypothesis was that the meaning of expressions has been hard-wired by evolution whereas the meaning of gestures is learnt and, at least to some extent, is arbitrary. If that were true, particular sorts of facial and vocal expression would occur only in particular contexts, and that this would be consistent across groups and even species. The

same gestures, by contrast, would be used in different contexts.

The researchers found exactly what they expected. Expressions (“silent bared teeth”, “relaxed open mouth”, “pant hoot” and so on) almost always occurred in the same contexts in different groups and different species. Gestures (“hard touch”, “reach out side”, “slap ground” etc) did not. Half of the gestures Dr Pollick and Dr de Waal regularly observed seemed to have completely different meanings in the two species. Moreover, even within a single group, the meaning of a gesture could vary with context, almost as tone of voice can vary the meaning of a human's spoken word. If a chimpanzee is involved in a fight, for example, “reach out side” means he is requesting support. If he makes this gesture to an acquaintance who is eating, he is asking to share the meal.

Lest such distinctions sound trite and obvious to humans—who are, after all, the animal kingdom's premier communicators—it is worth remembering that even monkeys cannot manage this sort of thing. It is also worth remembering that gesture is still a crucial part of human language, even for those with normal hearing. The old joke that the way to render an Italian speechless is to tie his hands together has a kernel of truth in it. Evolution does not come up with complicated structures in a single leap. They are built up step by step. This study suggests that the step of speech may have been built on mental attributes that were acquired millions of years ago when the ancestors of apes and men began to wave meaningfully at each other.

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Chemistry

It's a gas

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From The Economist print edition

A gaseous metal may just have been discovered

IN CHEMISTRY, less is more. The subject's practitioners have a horror of what they call “bucket chemistry”—even if the buckets in question are merely test-tube sized. Finesse comes from the ability to analyse small quantities accurately. And the smallest possible quantity in chemistry is, of course, a single atom.

Robert Eichler, of the Paul Scherrer Institute in Switzerland, and his colleagues have not quite managed that, but they have come close. As they report in this week's *Nature*, they have characterised the properties of a recently discovered element using two atoms. In doing so, they have shown that the predictions of chemistry's central blueprint, Dmitri Mendeleev's periodic table, extend reliably into the realm of heavy, short-lived, radioactive elements that do not exist in nature. They may also have found the first metal that is a gas at room temperature.

An electronic shell game

As generations of chemistry teachers have laboured to convey, the periodic table consists of rows and columns. Adjacent elements in a row differ from one another by a proton in the nucleus and an electron orbiting that nucleus. The periodic table works because the electrons like to organise themselves in concentric shells. Outer shells are bigger than inner ones, but each has a fixed capacity. When a shell is full, the next element in the series starts a new shell, and that marks the beginning of a new row of the table. The larger capacity of outer shells means that the rows get longer, and so more columns appear.

It is the columns that are the interesting part of the table. Elements in the first column all have one electron in their outermost shell. Those in the second column have two outer electrons, and so on. Only electrons in the outer shell can form chemical bonds, so the elements in each column are chemically similar.

What Dr Eichler and his colleagues wanted to find out was whether the pattern would continue to hold good for the monster elements coming out of the Joint Institute for Nuclear Research in Dubna, Russia. The reason to suspect it might not is that as the shells get bigger, the velocity of the electrons within them increases. At some point they will be travelling so fast that the way they bond will be affected by Albert Einstein's theory of relativity, which departs from classical theories at speeds close to that of light.

The object of Dr Eichler's study was element number 112. This was first made in 1996, but has still not received an official name (it goes under the ugly moniker of ununbium). In non-relativistic theory, it should behave like the other members of its column—zinc, cadmium and mercury—and be a metal. But some relativistic calculations suggested it might actually behave like a different element, the inert (and non-metallic) gas, radon.

Unfortunately for chemists, ununbium can be made only a few atoms at a time (by bombarding plutonium atoms with calcium atoms), and those atoms that are made have a half-life of a mere four seconds. Dr Eichler nevertheless took up the challenge. With the aid of colleagues in Dubna, he managed to get two atoms of ununbium to stick to a sheet of gold. What is more, by using a trick called thermochromatography he was able to measure the energy released when this happened. All that remained was to see whether this energy release more resembled that of gold reacting with mercury or with radon.

Mendeleev 1: Einstein 0

By a convenient fluke, the process that produces ununbium also generates radon, while adding neodymium yields mercury, too, so Dr Eichler's comparisons were to hand. The upshot is that the ununbium/gold reaction resembled that with mercury and not that with radon. However, the interaction energy reveals more than just chemical affinity. It also gives an idea of how volatile an element is, even if only one or two atoms are available.

Whether an element is a solid, a liquid or a gas depends on how its atoms interact with each other. But how they interact with other substances, such as gold, acts as a proxy for that behaviour. Dr Eichler's previous work has established a graph that describes this proxy. Although he cannot be sure, there is a good chance that if you could make ununbium in large quantities, it would not only be metallic, but would also be a gas at room temperature.

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Humans and bacteria

The extended genotype

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An ambitious project that promises to extend humanity's view of itself

“NO MAN is an island,” wrote John Donne. He was thinking of the wider society of which every human being is a member, but it is also true that human bodies themselves are societies. Besides the 10 trillion human cells in a body, there are another 100 trillion bacterial cells. These bacteria are symbiotic with their human hosts—drawing sustenance from them, but also giving something in return by performing chemical transformations that human cells cannot manage and safely occupying ecological niches that might otherwise be colonised by pathogens. Together, the numerous species that make up this luxuriant community are estimated to contain about 100 times as many genes as the human genome proper. The exact details of this “supplementary” human genome are, however, unknown.

This should soon change. At a meeting held last week in Bethesda, Maryland, a team of researchers organised by Jane Peterson and Lu Wang of America's National Human Genome Research Institute unveiled their plan for a Human Microbiome Project. This would build on the original Human Genome Project by deciphering the genomes of microbes living in all parts of the human body. Those parts include the intestines (which are home to most of them), the skin, the nose, the mouth, the throat, the respiratory tract, the stomach and the vagina.

One question the project would address is the degree to which the human microbiome is, indeed, uniquely human, and how the various host-microbe relationships have come about. Another is whether a set of bacteria is essential for basic human physiology—in other words whether humans really are symbiotic creatures who would die without their collaborators. But what is probably the most pertinent question is how an individual's personal microbial “signature” relates to health and disease. Recent work has begun to show how diet can affect gut bacteria in a way that has implications for how fat an animal is, and even how long it may live. Other studies suggest that having the wrong sort of bacteria may be associated with diabetes, autism, cancer, cardiovascular disease and inflammatory bowel disease. Understanding what is happening here might allow these diseases to be treated by infecting people with bacteria that displace the harmful species—and not just by eating fresh yogurt.

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Sexual selection

A game of ducks and drakes

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The evolutionary battle of the sexes has some curious consequences

SEX, in most species of bird, is a consensual activity. It has to be. Males have no penises and are armed with a genital opening which looks little different from that of a female. Intercourse happens when these two openings are brought together in what ornithologists refer to as a cloacal kiss. In these circumstances, rape is a difficult option.

Drakes, however, are notorious rapists—forcing their attentions on ducks indiscriminately—and it is surely no coincidence that they are among the 3% of male birds that do have a penis. In fact, drake penises come in a wide variety of shapes and sizes that are thought by students of the subject to be part of an arms race to ensure that it is the owner's sperm that fertilise the next generation of ducklings, rather than anybody else's.

The question is, an arms race against whom? The males of many species of insect have similarly elaborate genitalia. These seem designed to compete directly against other males—for example by scraping out the sperm of previous suitors or breaking off and blocking the female's genital opening. But Patricia Brennan, of Yale University, and her colleagues suspected that in ducks and drakes the arms race might be between the sexes rather than between members of the same sex. Females, in other words, would rather choose which males inseminate them. And if rape is inevitable, evolution might provide them with other ways of making this choice.

Surprisingly (or perhaps not, given the male-dominated nature of science) the elaborate cataloguing of drake genitalia had not been extended to ducks. So Dr Brennan got out her scalpel and started looking. As she reports in the *Public Library of Science*, she discovered that the sexual passages of ducks are every bit as elaborate as the penises of drakes are. Indeed, for every species, the more elaborate the latter were, the more elaborate were the former. In particular, duck vaginas are often equipped with additional passages that have blind endings, and frequently corkscrew in a clockwise direction, in contradistinction to the anticlockwise thread of a drake's penis.

Dr Brennan interprets these anatomical flourishes as anti-insemination mechanisms. The contrary threads of the genitalia make successful penetration much harder if the female is not co-operating. The blind passages make it likely that sperm will be ejaculated into the wrong place and thus fail to fertilise the duck's eggs. Conversely, a willing female should be more easily inseminated.

That interpretation is backed up by the fact that ducks with the most elaborate genitalia are those from species where the drakes have the largest penises. These species are also the ones where rape is most often observed. In ducks and drakes, it seems, size matters. But not in a way that is good for females.

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Geology

Ooo arhh!

May 3rd 2007
From The Economist print edition

A tsunami may have struck Britain 400 years ago

IN 1607 a sudden flood around the Bristol Channel in south-west Britain killed at least 2,000 people. It was the worst natural disaster ever recorded in a country which, last week, devoted headlines to an earthquake that knocked over a few chimney pots. But on that sunny January 30th four centuries ago, a fully laden 60 tonne ship in Appledore harbour, north Devon, was picked up and dumped in nearby marshland. The waters took one Mistress Van before she could reach the higher rooms of her house. She was caught unawares because she lived more than four miles (around 6km) from the sea.

That this huge flood happened is undisputed. It is commemorated in church plaques in the coastal counties of Somerset and Monmouthshire. But why it happened is another matter. For the past five years Edward Bryant and Simon Haslett of the University of Wollongong in New South Wales, Australia, have propounded the idea that a storm surge may have been wrongly accused. They think the flood was caused by a large tsunami that began off Ireland. They outline their evidence in this month's *Journal of Geology*.

The Bristol Channel is shaped like a funnel. That means it experiences smaller storm waves in its inner regions, which are narrow and shallow, than in its wider, deeper parts. Conversely, a tsunami wave rolling up the channel would grow in height as it became increasingly constricted. Dr Bryant and Dr Haslett looked at large boulders that had been transported onto the land by the sea in this region. Had a storm surge moved these boulders, Dr Bryant and Dr Haslett calculate that its waves would have to have been seven times higher than those of the largest storm waves ever recorded in these parts. A tsunami is more plausible.

Next they looked at the arrangement of the boulders. Rather than being dribbled erratically over the land, many form overlapping “trains” like roof tiles, oriented along the direction from which a tsunami would have struck. This pattern is more pronounced as the channel becomes narrower and turns into the Severn estuary.

Finally Dr Bryant and Dr Haslett found four examples of coastal bedrock that has recently been sculpted by high-energy vortices. That is an after-effect associated with historical tsunamis.

What might have caused such a tsunami is unclear. One possibility is a submarine landslide. Another is an earthquake at sea. Such earthquakes are rare in the geologically placid British Isles. But, as the people of Kent have just discovered, they do occasionally happen.

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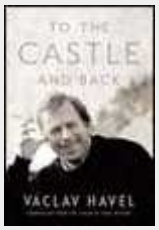
Vaclav Havel

A hero of his time

May 3rd 2007
From The Economist print edition

He never went with the crowd and has written a political memoir like no other

To the Castle and Back
By Vaclav Havel.
Translated by Paul Wilson



Knopf; 400 pages; $27.95

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AP

THE publishers probably groaned on receiving the text of this unusual book. It seems scratched together and rushed—even a paste-up job. But there is craft in the casualness. Before becoming his country's first post-Communist president, Vaclav Havel wrote absurdist plays and prison letters about speaking the truth to those in power. An intellectual with a near-liturgical respect for words, he distrusts mass-media patness almost as keenly as he hated Communist doublespeak. A writer with his ear and his ironic humour was never going to spoon-feed readers with a smoothly blended fairy tale.

Instead Mr Havel has tossed together official chronicle, satire, score-settling, self-lacerating apologia and wise thoughts on statecraft with merry disregard for timelines or tidy exposition. Out of the apparent chaos, a pattern emerges. By the end you will have a remarkable feel for Mr Havel's intricate personality—spiky, shy and under-confident but inwardly tough—as well as a compelling record of what candour and moral authority can, when the times are right, achieve in politics.

“To the Castle and Back” contains three overlapping elements. First, extended answers to the Czech political journalist who questioned him for a book-length interview (“Disturbing the Peace”) 20 years ago. Second, extracts, weighty and trivial, from Mr Havel's office memos to his staff when he was president of

Czechoslovakia (1989-92) and the Czech Republic after its separation from Slovakia (1993-2003). And third, entries from a diary written mostly during a recent stay in Washington, DC, in which Mr Havel, by now in his early 70s, records among other things his illnesses, his fondness for Americans, his admiration for senatorial haircuts and his own pernickety dissatisfaction, as the book goes along, with not having got the subtleties of the record quite right.

The interview begins where the earlier one left off, in the uncertain period before November 1989, when power passed from an obdurate-looking Communist Party to the untried dissidents of Civic Forum in a single heady fortnight. Almost nothing, Mr Havel tells us, was sure beforehand, least of all that he would come out on top.

Untidy days

In the mid-1980s, after four years of hard labour in prison for human-rights campaigning, his moral credit was high but his life was a shambles. A physical collapse almost killed him. His marriage was shaky and he nearly drowned by falling drunk into a pond after a party. He was never at university, knew no economics and had no experience of government. His limited acquaintance with business was through his father's and uncle's large holdings of property in Prague, which were expropriated when young Vaclav was 12.

Anyone regarding Mr Havel as too idealistic or too Bohemian for grubby politics soon learned otherwise. He had thought hard about the transition to democracy and got the big things right. Despite self-doubt and a terror of public speaking, he manoeuvred rivals aside to become president in December 1989. Though limited in domestic affairs, his powers in foreign policy and appointments were large. To break the Soviet Union's hold over the Czech armed forces and make democracy “irreversible”, he pressed for withdrawal from the Warsaw Pact and early membership of NATO.

The “snide brigade”, as he calls his critics in the press, complained about his appointment at the time. But he defends his first prime minister, Marian Calfa, a young Communist lawyer from Slovakia, for teaching “the new government how to govern”. He is cooler about Vaclav Klaus, who oversaw privatisation as finance minister, was prime minister from 1992 to 1997 and is now president. The two never got on. Both are centrist democrats, but opposite in virtually all else.

Mr Klaus is a bumptious free-market populist with nationalist inclinations who scoffed openly at Mr Havel's sermons on civic responsibility and once called him the most elitist person he had ever met. Here Mr Havel evens the score with several courteous but deadly thrusts of his own. Mr Klaus's time as prime minister ended in a party-financing scandal in 1997. His backers saw Mr Havel's hand in their man's fall, which Mr Havel denies.

Mr Havel's answers cover many other points in his presidency: the separation from Slovakia in 1992, an anti-Communist purge law, the restitution of property and the corruption that came with privatisation. The detail will interest mainly central European specialists. But perhaps because Mr Havel never took a higher degree in law, economics or international relations, a few sentences of his shed more light on such topics than dozens of expert reports. His description of the Havel family quarrel over their restored pre-1948 properties is telling and, he suggests, not untypical.

Cutting into the interview every page or so come the memos to his staff. These are the book's serious-comic element. Many concern presidential speeches, which he wrote himself, hated giving but considered vital for creating the right sense of national identity for a new republic. He includes other extracts presumably to show that “politics plods on”, as he puts it, and that leaders are not only human, but boringly human. So we learn of the sleeping bat in the cleaning cupboard, the garden hose and Mr Havel's own temper—both of which he tells us were too short.

At the end of his presidency, Mr Havel left behind neither heir nor party. This was no surprise. His whole career, like this book, can be taken as a plea for individuality, for not going with the crowd. Mr Havel is sage enough to know that not everyone wants to stand out. Still, his lesson is a good one, and at times even funny.

To the Castle and Back.
By Vaclav Havel. Translated by Paul Wilson.
Knopf; 400 pages; $27.95

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New novel

Casualties on the home front

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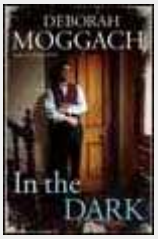
SUCH was the culling of young males that all the men in Deborah Moggach's new novel are either dead, wounded in limb or spirit—or profiteers and fraudsters. Ms Moggach's grandmother, who lost her husband, her only brother and 11 cousins in the slaughtering fields of the first world war, was the inspiration for this cleverly written tale of domestic intrigue in the sooty streets of Southwark, a working-class district of London just south of the Thames, as the war draws to its close.

A young war widow runs a dingy lodging house of dysfunctional wartime leftovers, helped by her tender-hearted, disastrously plain maid-of-all-work. Her teenage son treasures the brave letters, full of football and jollity, quoting scraps of comic verse ("When the War is over and the sword at last we sheathe/ I'm going to keep a jellyfish and listen to it breathe") that his father had sent home from the horror of the blood-and-shit trenches. A blind lodger looks forward to the class revolution that never came.

In the Dark
By Deborah Moggach



Chatto & Windus; 249 pages; £12.99

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Then a rich racketeering butcher barges like a tank through the household. He woos the landlady with meat: in one of his quieter moments he muses on how the most surprising women would drop their drawers for a pound of mince. The lodgers grow fat on the dinners he provides though they are, correctly, suspicious of his intentions. The maid droops under the extra work as her mistress grows lazy, suborned by the butcher's sex and sovereigns. The son, turned instant vegetarian, holds him in Hamlet-like loathing.

Ms Moggach's characters are funny and sad, though perhaps a shade two-dimensional; her ending a little arbitrary with an awkward epilogue. But, as expected from the author of "Tulip Fever", a great tale of art, illusion and greed in 17th-century Amsterdam, not all is quite as it seems. Her war-haunted gas-lit scene, with its surprises hidden under the rising dust and falling plaster, is very much worth a visit.

In the Dark.
By Deborah Moggach.
Chatto & Windus; 249 pages; £12.99

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Europe's future

Eurabia revisited

May 3rd 2007
From The Economist print edition

THE notion that Europe is in trouble is hardly new. It suffers from slow growth, high unemployment and a welfare state that saps competitiveness and pushes up taxes. The European Union has been stumbling since its constitution was rejected by French and Dutch voters in 2005. But Walter Laqueur, a veteran historian, has lit on two longer-term issues: demographic decline and the rise of Islam.

Unfortunately, he falls into the lazy trap of extrapolation, which leads him to unduly apocalyptic conclusions. Yes, the European population is shrinking, with the rate of decline rising as one travels east. Europe's global weight must shrink too: Mr Laqueur notes that its share of world population, one-quarter in 1900, may fall below 5% by 2050. But it is a mistake to believe other, dramatically over-gloomy projections. Already there are signs of a revival in birth rates in France, Sweden, Britain and even Italy.

Nor need demographic decline imply economic decline. Much of Europe may be too densely populated. Bangladesh is not in better shape than Belgium because its population is growing faster. An ageing population makes cuts in welfare and pensions more urgent, but European countries have to tackle these anyway.

The Last Days of Europe: Epitaph for an Old Continent
By Walter Laqueur

Thomas Dunne; 256 pages; $25.95

Buy it at
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As for the EU, Mr Laqueur is right that it is having a mid-life crisis, but he exaggerates its gravity. In truth, the drive to a federal Europe petered out two decades ago. Yet the EU still functions; the single market and single currency both work. More reform by national governments is needed, not least because their public finances are otherwise unsustainable. But, as the late Herb Stein used to say, things that are unsustainable always come to a stop. Reform will come in Europe, sooner or later.

The most controversial bit of Mr Laqueur's book concerns immigration and the rise of Islam in Europe. He makes no bones about being against both. He believes that, unlike immigrants to America, or previous waves of immigrants to Europe, the millions of Muslims in Britain, France, Germany and other EU countries are not assimilating. They find it too hard to get work, too easy to get welfare and too tempting to breed. Combining this with the EU's demographic decline, Mr Laqueur goes on to echo the fears of some of the wilder American neocons that Europe risks becoming a Muslim-dominated Eurabia, to the extent of adopting *sharia* law.

Many EU countries have problems with their Muslims. Neither assimilation (French-style) nor multiculturalism (British-style) seems to have worked well. Unemployment is high, radical Islam is spreading and there are groups of young men who are at least sympathetic to terrorism. But Mr Laqueur offers no answers beyond saying that it was wrong to tolerate uncontrolled immigration in the first place. Even this conclusion is not convincing: given its demographic outlook, Europe needs more not fewer immigrants.

Mr Laqueur is too gloomy about the prospects of Muslims playing a more constructive role. In Europe's own history Islam has often been a more tolerant, civilising force than, say, the Roman Catholic church. Today's Turkey offers a current example: devout Muslims with a passion for secular democracy. In truth, European cities such as London and Berlin have acquired a new zip thanks to immigrants from around the world, including those from Muslim countries. It is a shame that the tone of Mr Laqueur's book is so hostile that it slips into outright intolerance.

The Last Days of Europe: Epitaph for an Old Continent.
By Walter Laqueur.
Thomas Dunne; 256 pages; $25.95

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Flight attendants

Skivvies of the sky

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From The Economist print edition

THINK of international air travel these days and it is a fair bet that glamour and luxury, let alone sex, do not leap to mind. But for decades, airlines in America and elsewhere used carefully selected, perfectly groomed young women to persuade their mainly male customers that sitting in cramped aluminium tins for hours at a stretch was a pleasurable experience. Terrorism was the last straw but it was really technology that destroyed the illusion. Once the jet engine allowed mass air travel, pampering and soothing stopped and the whiff of romance became an advertising copywriter's fiction.

Kathleen Barry's history of how gracious stewardesses turned into sexy air hostesses and then into tough, grumpy flight attendants tries hard to be dull, but thankfully does not quite succeed. It is striking, and shameful, that women had to leave their jobs once they married, were often subject to snap underwear inspections and had to retire at 32. Wise readers will skip the exhaustive descriptions of the trade-union politics that these indignities prompted.

Much more interesting is the way in which the status and reputation of cabin crews mirrored other social changes. In the swinging sixties, a book called "Coffee, Tea or Me?", which sold more than 1m copies, supposedly chronicled the sexual adventures of young women liberated by contraception and a huge choice of partners (in fact, the pseudonymous author turned out to be a male airline publicist). Airline advertisements, such as Continental's "We really move our tails for you", seem impossibly lewd to modern eyes. Some airlines expected their female staff to wear outfits including miniskirts, wet-look vinyl, fishnet stockings, hotpants and the like: after all, if the customers weren't happy, they would soon go elsewhere.

After much huffing and puffing from an increasingly unionised and feminist workforce, American airlines largely dropped all this nonsense. Nowadays, flight attendants highlight their role as safety professionals, able to open the aircraft's doors manually, underwater and in the dark.

Ms Barry's book is written from a narrowly national perspective, her view of industrial relations rooted in the adversarial American approach. It would have been interesting to have learned how things changed in the more consensual context of Scandinavian and German trade unionism. And she ignores the way in which Asian airlines still highlight the demure charms of their cabin crew.

The book leaves a sense of nostalgia in its wake. Female cabin crew may have higher formal status and are less likely to have their bottoms pinched (by customers or colleagues). But their job has become both harder and drearier: waitressing in the sky, to diners infantilised by rules and behaviour codes. The result is a polite conspiracy in which both servers and served try to pretend to each other that flying is not quite as ghastly as it truly is.

Femininity in Flight: A History of Flight Attendants.
By Kathleen M. Barry.
Duke University Press; 328 pages; $22.95 and £13.99

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Toy industry

The tale of Barbie and Li Mei

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From The Economist print edition

EVERYONE knows something about Barbie, the most famous doll in the world. Big-breasted, narrow-waisted and long-legged, she has helped sex intrude into childhood. Every second at least three Barbies are sold, bringing in $3.6 billion annually in retail sales. According to Eric Clark, a journalist who knows all that is worth knowing about selling toys, Barbie is what the trade calls a “lifestyle brand”. Attended by 50 designers, including Armani and Dior, and a dozen hairdressers, she is adored by conventions, clubs, websites and collectors.

Several decades ago, Barbie's creator, Ruth Handler, saw a Swiss doll called Lilli, voluptuous and wearing heels. She was just what Ms Handler wanted for a blockbuster new doll. Ignoring traditional marketeers—shocked by Barbie's breasts—she began an uphill battle in California to manufacture this sexy creature, so unlike cuddly baby dolls. What she did not know was that Lilli was based on a prostitute in “a German adult cartoon aimed at men.”

Mr Clark is steely-eyed about marketing toys which slither sexily down into single-figure age-groups. He is even steelier investigating the industry's economics. Eighty per cent of the world's bestselling toys are manufactured in Chinese sweatshops by workers on pitiful wages, often working seven days a week. A Chinese-made Barbie retails in America for $9.99—of which 35 cents goes to the factory, including the price of labour. A $44.99 electric toy pays 81 cents in labour costs.

Although Chinese law stipulates that assembly-line workers should toil for only 53 hours a week, 80 hours is common: the average working day is 11-12 hours long. Workers sign contracts they cannot understand, which include paying for food and lodging in factory dormitories, medical fees and penalties for work not up to standard. Factories are tidied up when foreign investigators visit, under-age workers hidden or sent away. Bogus payslips are produced along with faked time-cards and workers are drilled on the correct answers to questions.

Mr Clark's conclusion is unsparing. Everyone makes good, often fabulous, money, except “Li Mei”, his composite assembly-line toymaker. She travelled hundreds of miles from west China to earn money for her family. Now all she can do is lament “I'm tired to death.”

The Real Toy Story: Inside the Ruthless Battle for America's Youngest Consumers.
By Eric Clark.
Free Press; 272 pages; $26.
Black Swan; £8.99

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Classical music

Reports of its death are exaggerated

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From The Economist print edition

Classical music, struggling for an audience, is going through awkward times

AS RECENTLY as a decade ago, the great tradition of classical music seemed prosperous, its position as a central pillar of culture beyond dispute. But over the past few years, that assumption has cracked. The market is shrinking: an ageing audience is not being replaced by younger listeners. In a desperate bid to appeal to them, classical music has been diluted into crossover projects, featuring easy-listening melodies performed by winsome soloists. To the general public, "classical" has come to mean anything with strings, including film scores and television commercials.

Taken together, these three books offer illuminating—but very different—perspectives on what is happening. Norman Lebrecht, the author of "The Life and Death of Classical Music", can fairly claim the doom-laden turf as his own. A long-time critic of the venality and corruption of the classical music establishment, his latest volume continues the attack, this time concentrating on recording. Those familiar with Mr Lebrecht's style will know what to expect. He tells a ripping yarn, packed with facts, vignettes and thumbnail sketches. His hyperventilating prose revels in racy detail: "when green-suited Frank Lee was caught with a catamite in Zurich on a company trip, he was sacked on the spot."

However, if the reader can survive the breathless pace, the tale is worth the telling. The records that Caruso made in 1902 launched not just a mega-industry but a 20th-century phenomenon. Recording laid open the world of classical music to millions of people, bringing its wonders to their homes. Stars were created and fortunes made; conductors and soloists became household names. The allure was heightened by a string of technical innovations: from 78s to the LP to stereo to the compact disc, there seemed no end to what the recorded product could offer.

But as Mr Lebrecht reveals, the handwriting was already on the wall. The sequence of ear-catching new formats created an illusion of prosperity that fuelled the record companies' taste for excess. Bloated reputations and salaries sent costs soaring, far beyond what could be recouped by sales and the actual size of the market. By the late 1990s, as Mr Lebrecht puts it, the whole industry found itself in meltdown, a panic impelling cutbacks, mergers and the abandonment of the traditional repertoire.

"An art form had come to an end," intones Mr Lebrecht. But his sensationalised obituary is premature. Plenty of small independent record labels are flourishing, supported by plenty of music-lovers, not to mention the brave new world of downloading from the internet. Media-savvy companies routinely include online sales in their promotions: one enterprising firm even offers individual movements from symphonies at £1 ($2) a time.

Helen Wallace's engrossing history of Boosey & Hawkes (B&H), a music publisher, provides further proof of classical music's vitality. More judicious than Mr Lebrecht's tome, it outlines the often vexed relationship between creative temperaments and their commercial representatives—who can be quite temperamental too. Since its founding in 1930, B&H has published many of the most eminent modern composers, from Igor Stravinsky, Bela Bartok and Aaron Copland to such present-day luminaries as John Adams, Harrison Birtwistle and Steve Reich. One of its earliest discoveries was Benjamin Britten, who worked

The Life and Death of Classical Music: Featuring the 100 Best and 20 Worst Recordings Ever Made
By Norman Lebrecht

Anchor Books; 352 pages; $14.95.
Published in Britain as "Maestros, Masterpieces and Madness"; Allen Lane; £20

Buy it at
Amazon.com
Amazon.co.uk

Boosey & Hawkes: The Publishing Story
By Helen Wallace

Boosey & Hawkes; 256 pages; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Why Classical Music Still Matters
By Lawrence Kramer

with the house happily for years until his favourite member of staff was dismissed—so he went as well.

Such conflicts are par for the course as B&H contends with personality clashes, takeover bids, transatlantic tensions, war, fraud and changes in taste. But the firm's outlook remains confident and committed, reflecting a belief that the art it stands for will continue to communicate its riches to whoever listens.

University of California Press; 247 pages; $24.95 and £15.95

Buy it at
Amazon.com
Amazon.co.uk

But how do you get people to listen to classical music in a profoundly non-classical age? Lawrence Kramer tackles this question in “Why Classical Music Still Matters”. Other writers have ranged classical and popular music against each other, an antithesis Mr Kramer abjures. He frequently invokes popular culture, referring to the way in which films and television use classical music's special properties—its mixture of complexity, depth and order—to convey different realities.

Those are the qualities that give classical music its particular value, encouraging listeners to reach for similar characteristics in their lives. Mr Kramer traces his passionate, persuasive argument through chapters on the significance of melody, the transcendent effect of song, the particular appeal of the piano and music as a repository of mythic images. His last chapter, describing how a subway busker reduces a crowd of scurrying New Yorkers to rapt silence with a Bach violin sonata, is an appropriate image for our times, a sign that classical music does indeed still matter.

The Life and Death of Classical Music: Featuring the 100 Best and 20 Worst Recordings Ever Made.
By Norman Lebrecht.
Anchor Books; 352 pages; $14.95 and £15.95

Boosey & Hawkes: The Publishing Story.
By Helen Wallace.
Boosey & Hawkes; 256 pages; £12.99

Why Classical Music Still Matters.
By Lawrence Kramer.
University of California Press; 247 pages; $24.95

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David Halberstam

May 3rd 2007
From The Economist print edition

David Halberstam, chronicler of post-war America, died on April 23rd, aged 73

AP

“IF THE Senate Foreign Relations Committee, the press and the public had known of the extent of the intelligence community's doubts, there would have been a genuine uproar about going to war.” Thus David Halberstam in “The Best and the Brightest”, telling the story of how America slid into Vietnam. But they did not know. The young men were shipped across in thousands, among them Mr Halberstam, covering the conflict for the *New York Times*. He went as a believer, seeing the war as a test of two political systems that America was bound to win. He found cynicism, anger and pervasive lying about how things were going. America could destroy, with its lumbering bombers, as much as it pleased; the Vietcong had political superiority, and would win in the end.

Mr Halberstam's truth-telling about the Vietnam war caused such anguish to officialdom that President Kennedy tried to get him fired. Journalists, and the general public, were less sceptical of government back then; but this young man's copy, soon turned into books, started an erosion of trust that has only gathered pace since.

He took his job seriously: so seriously that, with his professor's glasses and a voice as sonorous as gravel shifting underground, he seemed like a shaman of the trade. Young journalists, he said, should be like him: curious, ethical and honest, fortified with “inner toughness”, fearlessly out to change society. No other life “would make me feel better about myself”. He had held this belief ever since, at the age of eight, he had made his first newspaper with a purple pen on gelatin sheets, recording (truthfully, for posterity) the number of fish he had caught in the creek.

Blessed with this high calling, he reckoned he had never made a false move. Straight out of Harvard, he went to the tiniest newspaper in Mississippi in 1955, just as the civil-rights movement was beginning to break. A year later he joined the *Tennessean* in Nashville, again covering civil rights, in the thick of things and ahead of the game. Already, the traits of his journalism were forming: he would talk not to officials but to the man in the street, just as in Vietnam he would talk not to lying commanders but to the “pissed off” soldier on the ground. He was a soldier too, with “Halberstam, New York Times” stamped on his fatigues: a fighter for truth.

When, in the 1970s, he shifted to writing books on recent history, a certain holy order hovered round what he did. Hundreds of interviews were recorded in longhand, typed up in single spacing and arranged in piles. His notes, he said, were the most meticulous that colleagues had ever seen. He laid down set hours for writing in which only the foolhardy would telephone or knock on his door. The spring was his researching season, the summer his time to type beside the deferential sea in Nantucket.

Loyalty as history

The school of literature he belonged to was quintessentially American. He produced, for the most part, very big books on very wide themes: the media and politics in “The Powers That Be” (1979), foreign policy in “War in a Time of Peace” (2001), past and future ages in “The Fifties” (1993) and “The Next Century” (1991). A Halberstam paragraph usually filled a page, unfolding portentously towards some great quotation that glimmered in the final line. Between the doorstoppers came books on sports, allegedly lighter relief for him. But sports, especially baseball, were also mirrors of the cultural changes he felt appointed to record. “October 1964” (1994) became a treatise on civil rights as seen in team changing-rooms; “Playing for Keeps” (1999), about Michael Jordan, turned into a book about the modern worship of celebrity; “Summer of '49” (1989), in which the Yankees and the Red Sox strove for the pennant, was an elegy for the world Mr Halberstam seemed most to hanker after, where travel was by train and entertainment on the radio, and where the afternoon sun shone quietly on baseball played on grass.

His were always male worlds: panelled corridors, mess-tents, locker rooms. The tang of Scotch, sweat and gun-metal rose from his pages. Loyalties would be forged under pressure or in adversity, and these made the texture of Mr Halberstam's history. Some were good: his reaction to the attacks of September 11th 2001 was to tell the story of Engine 40, Ladder 35 of the New York Fire Department, where the men's shared work and meals and willingness to die for strangers made them, in his eyes, a sacred fraternity. But some networks of loyalty had devastating effects, as when the privileged, brainy circle round Kennedy led America into Vietnam.

As Mr Halberstam died, suddenly in a car crash near San Francisco, Congress was voting to cut off money for the Iraq war. Interviewers had often tried to sound him out on that war; he was surprisingly reticent. But then all that needed to be said had been written already, in 1972, at the end of “The Best and the Brightest”:

> Time was on the side of the enemy, and we were in a position of not being able to win, not being able to get out...only being able to lash out...And so the war went on, tearing at this country; a sense of numbness seemed to replace an earlier anger. There was, Americans were finding, no light at the end of the tunnel, only greater darkness.

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Overview

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America's GDP growth rate slowed to an annualised 1.3% in the first quarter, the lowest for four years, according to a first official estimate. Once again, growth was dragged down by a sharp fall in housing investment. The price index for core personal consumption expenditures, the Federal Reserve's favourite inflation measure, rose by 2.1% in the year to March, down from 2.4% in the year to February.

In the **euro area** the unemployment rate fell in March, to 7.2%, from 7.3% in February. **France's** rate also fell by a tenth of a percentage point, to 8.3%, the lowest since 1983. On the definition used by its national labour office, **Germany's** jobless rate remained at 9.2% in April.

Italy's consumer-price inflation rate fell to 1.5% in April, from 1.7% in March. **Belgian** inflation stayed at 1.8%.

Japan's inflation rate stayed in negative territory. Consumer prices fell by 0.1% in the year to March, compared with 0.2% in the year to February. Core consumer prices, which exclude those of fresh food but include those of energy, dropped by 0.3% in the year to March. The country's industrial output fell by 0.6% in March, but still rose by 1.6% over the year. In the year to February it went up by 3.1%.

Inflation in **Thailand** fell to 1.8%, a three-year low, in April. Economists predict that the central bank will cut interest rates again. **South Korea's** industrial production fell unexpectedly in March, but rose year-on-year.

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Output, prices and jobs

May 3rd 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+2.1 Q1	+1.3	+2.3	+2.7	+2.3 Mar	+2.8 Mar	+3.4	+2.1	4.4 Mar
Japan	+2.3 Q4	+5.5	+2.3	+2.3	+1.6 Mar	–0.1 Mar	–0.2	+0.1	4.0 Mar
China	+11.1 Q1	na	+9.8	+9.7	+17.6 Mar	+3.3 Mar	+0.8	+2.7	9.8 2006
Britain	+2.8 Q1	+2.6	+2.6	+2.5	+0.3 Feb	+3.1 Mar**	+1.8	+2.1	5.5 Feb††
Canada	+2.3 Q4	+1.4	+2.4	+2.7	–1.2 Feb	+2.3 Mar	+2.2	+1.7	6.1 Mar
Euro area	+3.3 Q4	+3.6	+2.3	+2.1	+4.1 Feb	+1.8 Apr	+2.4	+1.8	7.2 Mar
Austria	+3.3 Q4	+3.3	+2.8	+2.6	+8.6 Feb	+1.8 Mar	+1.0	+1.6	4.4 Apr
Belgium	+2.8 Q1	+2.4	+2.3	+2.2	+3.4 Feb	+1.8 Apr	+2.0	+1.8	11.2 Mar‡‡
France	+2.5 Q4	+2.9	+2.1	+2.1	+2.6 Feb	+1.2 Mar	+1.5	+1.4	8.3 Mar
Germany	+3.7 Q4	+3.5	+2.2	+2.1	+7.6 Feb	+1.9 Apr	+2.0	+1.7	9.2 Apr
Greece	+4.3 Q4	na	+3.3§	+3.2§	+2.3 Feb	+2.6 Mar	+3.3	+2.8§	8.6 Jan
Italy	+2.8 Q4	+4.7	+1.9	+1.6	–0.7 Feb	+1.5 Apr	+2.2	+1.8	6.5 Q4
Netherlands	+2.7 Q4	+2.6	+2.6	+2.4	+6.1 Feb	+1.8 Mar	+1.0	+1.4	5.3 Mar††
Spain	+4.0 Q4	+4.8	+3.4	+2.8	+3.5 Feb	+2.5 Mar	+3.9	+2.5	8.6 Mar
Czech Republic	+5.8 Q4	+5.8	+5.1	+4.6	+15.4 Feb	+1.9 Mar	+2.8	+2.4	7.3 Mar
Denmark	+2.9 Q4	+1.5	+2.3	+2.3	+0.7 Feb	+2.0 Mar	+1.9	+1.8	3.9 Mar
Hungary	+3.2 Q4	+3.2	+2.3	+3.0	+10.7 Feb	+9.0 Mar	+2.3	+6.6	7.5 Mar††
Norway	+2.7 Q4	+2.0	+2.8§	+2.5§	–1.6 Feb	+1.1 Mar	+2.4	+1.6§	2.7 Feb††
Poland	+6.4 Q4	na	+5.4	+5.0	+11.3 Mar	+2.5 Mar	+0.4	+2.0	14.4 Mar‡‡
Russia	+7.9 Q1	na	+7.0	+6.3	+7.9 Mar	+7.1 Mar	+10.6	+7.3	7.2 Mar‡‡
Sweden	+4.7 Q4	+5.0	+3.8	+3.0	+6.8 Feb	+1.9 Mar	+0.7	+1.6	4.8 Mar‡‡
Switzerland	+2.2 Q4	+1.8	+2.0	+2.0	+8.9 Q4	+0.5 Apr	+1.1	+0.7	3.0 Mar‡‡
Turkey	+5.2 Q4	na	+4.3	+5.3	+7.1 Feb	+10.9 Mar	+8.2	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+2.9	+3.2	+3.7 Q4	+2.4 Q1	+3.0	+2.7	4.5 Mar
Hong Kong	+7.0 Q4	+5.3	+5.4	+5.1	–1.4 Q4	+2.4 Mar	+1.6	+2.5	4.3 Mar††
India	+8.6 Q4	na	+8.0	+7.8	+11.0 Feb	+6.7 Mar	+4.9	+5.0	7.6 2006
Indonesia	+6.1 Q4	na	+6.0	+5.9	–5.2 Feb	+6.3 Apr	+15.4	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.7	–0.2 Feb	+1.5 Mar	+4.8	+2.5	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.6§	+6.1§	+6.8 Sep	+7.7 Mar	+6.9	+6.8§	na
Singapore	+6.0 Q1	+7.2	+5.4	+5.4	–2.9 Mar	+0.7 Mar	+1.2	+1.4	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.4	+4.7	+3.1 Mar	+2.5 Apr	+2.0	+2.3	3.2 Mar
Taiwan	+4.0 Q4	na	+4.3	+4.6	+0.1 Mar	+0.8 Mar	+0.4	+1.4	3.9 Mar
Thailand	+4.2 Q4	+2.7	+4.3	+4.8	+4.0 Mar	+1.8 Apr	+6.0	+2.9	1.6 Jan
Argentina	+8.6 Q4	+7.4	+7.0	+4.8	+3.7 Mar	+9.1 Mar	+11.1	+9.8	9.7 Q1‡‡
Brazil	+3.8 Q4	+4.5	+3.3	+3.5	+3.0 Feb	+3.0 Mar	+5.3	+3.7	10.1 Mar‡‡
Chile	+4.3 Q4	+7.8	+5.1	+5.2	+5.2 Mar	+2.6 Mar	+4.0	+2.6	6.7 Mar††††
Colombia	+8.0 Q4	nil	+5.0	+4.5	+14.6 Feb	+6.3 Apr	+4.1	+4.2	12.0 Mar‡‡
Mexico	+4.3 Q4	+1.9	+3.5	+3.7	nil Feb	+4.2 Mar	+3.4	+3.8	4.0 Mar‡‡
Venezuela	+11.8 Q4	na	+6.2	+3.9	+6.7 Jan	+19.4 Apr	+11.4	+18.3	8.9 Q4‡‡
Egypt	+7.1 Q3	na	+6.5	+5.9	+10.5 2006	+12.8 Mar	+3.7	+9.9	10.9 Q2‡‡
Israel	+3.7 Q4	+8.0	+4.6	+4.3	+8.4 Feb	–0.9 Mar	+3.6	+1.4	7.7 Q4
Saudi Arabia	+3.4 2006	na	+3.9§	+5.0§	na	+3.0 Feb	+1.6	+2.6§	na
South Africa	+6.1 Q4	+5.6	+4.4	+4.7	+7.1 Feb	+6.1 Mar	+3.4	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+10.9 Q4	+8.2	+9.2§	+7.4§	+7.4 Mar	+5.7 Mar	+4.0	+4.3§	4.9 Mar
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–0.1 Mar	+2.6 Mar	+0.9	+1.9§	7.2 Mar
Iceland	+2.5 Q4	+7.8	+1.3§	+2.7§	na	+5.3 Apr	+5.5	+4.9§	1.3 Mar‡‡
Ireland	+5.0 Q4	+0.1	+5.4§	+3.6§	+22.3 Feb	+5.1 Mar	+3.5	+3.4§	4.2 Mar
Latvia	+11.9 Q4	na	+9.2§	+7.5§	+2.0 Feb	+8.5 Mar	+6.5	+6.0§	5.8 Feb
Lithuania	+7.1 Q1	+6.1	+6.5§	+6.4§	na	+4.6 Mar	+3.1	+1.8§	6.2 Feb
Luxembourg	+5.0 Q4	+7.0	+4.6§	+4.9§	+0.4 Jan	+2.1 Mar	+3.0	+3.0§	4.6 Mar‡‡
New Zealand	+2.9 Q4	+5.0	+3.1§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+3.0§	3.7 Q4
Peru	+7.4 Feb	na	+6.1	+5.5	+7.2 Feb	+0.2 Mar	+2.5	+1.4	9.5 Feb‡‡
Philippines	+6.5 Q4	+5.6	+5.6	+5.7	–10.3 Feb	+2.2 Mar	+7.6	+4.2	7.3 Q4‡‡
Portugal	+1.7 Q4	+1.9	+1.6§	+2.1§	+1.8 Mar	+2.3 Mar	+3.9	+2.2	8.2 Q4‡‡
Slovakia	+9.6 Q4	na	+8.0§	+5.6§	+15.5 Feb	+2.7 Mar	+4.5	+2.5	11.2 Feb
Slovenia	+5.5 Q4	na	+4.2§	+4.0§	+9.3 Feb	+2.6 Apr	+2.7	+2.7	8.3 Feb‡‡

*% change on previous quarter, annual rate. †*The Economist poll*. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.8% in Mar. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

May 3rd 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Apr 24th	May 1st*	% change on one month	% change on one year
Dollar index				
All items	201.6	200.4	+2.9	+15.3
Food	156.1	157.9	+2.4	+14.9
Industrials				
All	260.4	255.3	+3.2	+15.7
Nfa†	157.7	154.2	–2.5	+2.1
Metals	316.4	310.6	+4.9	+20.0
Sterling index				
All items	152.6	152.0	+1.8	+6.1
Euro index				
All items	136.8	136.3	+1.2	+7.2
Gold				
$ per oz	685.75	673.85	+1.1	+1.4
West Texas Intermediate				
$ per barrel	64.55	64.41	–0.1	–13.6

*Provisional †Non-food agriculturals.

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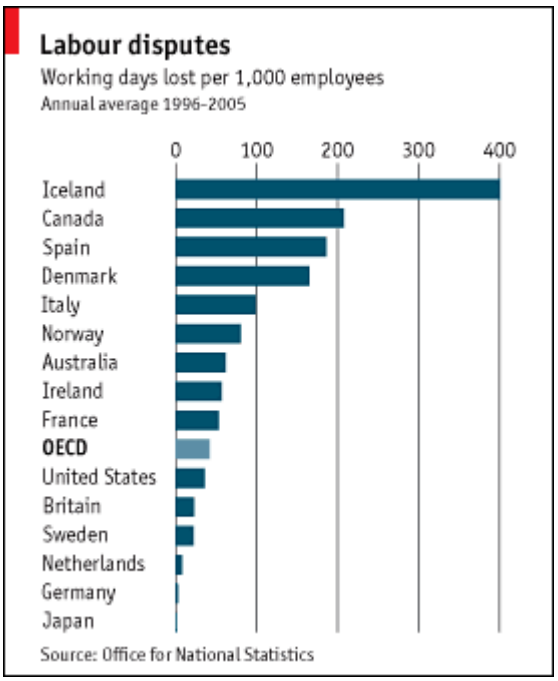
Labour disputes

May 3rd 2007
From The Economist print edition

Data compiled by Britain's official statisticians show that strike rates in OECD countries can vary enormously from one year to the next. In Iceland, which tops the chart of working days lost per 1,000 employees in the ten years to 2005, no days at all were lost in 1996, 1999, 2002, 2003 or 2005; but strikes cost 1,571 days per 1,000 workers in 2001 and 1,052 in 2004. In Finland one dispute accounted for 98% of the 322 days lost per 1,000 workers in 2005; in only one of the previous nine years did the rate exceed 100. Austria lost 398 days in 2003, owing to protests over pension reforms; in no other recent year did the rate reach double figures. In Canada, by contrast, the rate was over 100 in all ten years.



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Trade, exchange rates, budget balances and interest rates

May 3rd 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ May 2nd	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	–825.2 Feb	–856.7 Q4	–6.1	–	–	–1.7	5.23	4.64
Japan	+84.0 Feb	+173.9 Feb	+4.1	120	114	–4.5	0.57	1.63
China	+200.9 Mar	+160.8 2005	+7.6	7.70	8.01	–1.7	2.98	3.54
Britain	–154.8 Feb	–80.1 Q4	–3.0	0.50	0.54	–2.6	5.69	5.08
Canada	+46.3 Feb	+21.4 Q4	+1.0	1.11	1.11	1.3	4.16	4.22
Euro area	–6.4 Feb	–5.1 Feb	–0.1	0.74	0.79	–1.0	4.00	na
Austria	+0.6 Feb	+10.3 Q4	+1.3	0.74	0.79	–0.9	4.02	4.25
Belgium	+18.3 Feb	+7.8 Dec	+2.7	0.74	0.79	0.4	4.08	4.27
France	–34.4 Feb	–30.5 Feb	–1.3	0.74	0.79	–2.7	4.02	4.25
Germany	+213.0 Feb	+153.5 Feb	+4.7	0.74	0.79	–0.3	4.02	4.20
Greece	–45.7 Feb	–31.5 Feb	–8.1†	0.74	0.79	–2.2	4.02	4.41
Italy	–25.2 Feb	–47.1 Feb	–1.9	0.74	0.79	–2.6	4.02	4.42
Netherlands	+42.4 Feb	+59.7 Q4	+8.3	0.74	0.79	0.5	4.02	4.24
Spain	–115.9 Feb	–109.8 Jan	–8.8	0.74	0.79	1.4	4.02	4.26
Czech Republic	+2.4 Feb	–6.1 Q4	–3.3	20.7	22.4	–4.3	2.67	3.94
Denmark	+6.3 Feb	+5.8 Feb	+2.7	5.48	5.91	3.1	4.23	4.24
Hungary	–2.4 Feb	–6.5 Q4	–5.0	182	207	–6.7	7.82	6.70
Norway	+54.7 Mar	+56.1 Q4	+14.9†	5.97	6.14	18.7	4.52	4.82
Poland	–5.3 Feb	–8.2 Feb	–2.5	2.77	3.02	–2.4	4.42	5.30
Russia	+134.1 Feb	+85.8 Q1	+6.0	25.7	27.2	5.5	10.50	6.17
Sweden	+20.1 Mar	+28.4 Q4	+6.6	6.72	7.38	2.2	3.33	4.07
Switzerland	+10.4 Mar	+106.1 Q4	+15.3	1.21	1.24	0.3	2.31	2.79
Turkey	–53.5 Mar	–32.4 Feb	–7.0	1.36	1.32	–2.7	19.33	18.99
Australia	–9.9 Feb	–40.9 Q4	–5.2	1.21	1.30	1.3	6.51	5.82
Hong Kong	–18.2 Mar	+20.2 Q4	+9.4	7.82	7.75	1.9	4.23	4.12
India	–58.2 Mar	–10.0 Q4	–2.3	41.2	44.8	–3.5	7.46	8.41
Indonesia	+41.1 Mar	+9.6 Q4	+1.2	9,073	8,777	–1.2	8.71	6.28§
Malaysia	+29.3 Feb	+22.2 Q3	+12.9	3.42	3.61	–3.3	3.61	5.16§
Pakistan	–13.4 Mar	–6.5 Q4	–5.4†	60.6	60.1	–3.9	9.76	6.63§
Singapore	+34.4 Mar	+36.3 Q4	+23.5	1.53	1.57	0.3	2.58	2.72
South Korea	+17.2 Apr	+5.7 Mar	+0.3	931	934	0.6	4.96	5.05
Taiwan	+14.1 Mar	+25.2 Q4	+5.9	33.3	31.6	–2.3	1.86	2.18
Thailand	+6.6 Mar	+8.1 Mar	+1.9	34.8	37.7	–1.4	4.15	3.75
Argentina	+11.7 Mar	+8.1 Q4	+2.4	3.08	3.04	1.5	9.38	na
Brazil	+46.7 Apr	+13.6 Mar	+0.7	2.03	2.07	–2.4	12.43	6.16§
Chile	+23.8 Mar	+5.3 Q4	+0.8	525	517	4.8	5.04	5.21§
Colombia	–0.9 Feb	–2.9 Q4	–2.3	2,089	2,377	–0.9	7.50	5.92§
Mexico	–9.2 Mar	–1.5 Q4	–1.2	10.9	11.0	–0.2	7.00	7.77
Venezuela	+33.0 Q4	+27.2 Q4	+9.3	3,044	2,494	–4.9	10.08	6.55§
Egypt	–12.6 Q4	+2.7 Q4	+1.3	5.68	5.76	–7.6	7.53	5.31§
Israel	–7.8 Mar	+6.8 Q4	+3.4	4.07	4.50	–2.0	4.02	4.54
Saudi Arabia	+148.5 2006	+95.4 2006	+18.3†	3.75	3.75	13.7	5.06	na
South Africa	–9.5 Mar	–16.3 Q4	–5.9	7.05	6.06	0.5	9.30	7.69
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	–3.6 Feb	–2.7 Feb	–13.5†	11.5	12.4	1.6	4.38	na
Finland	+11.6 Feb	+12.7 Feb	+5.7†	0.74	0.79	2.3	3.99	4.25
Iceland	–1.9 Mar	–4.4 Q4	–20.1†	63.9	73.8	1.8	13.95	na
Ireland	+33.6 Feb	–7.2 Q4	–4.3†	0.74	0.79	1.0	4.02	4.23
Latvia	–5.3 Feb	–4.8 Feb	–23.1†	0.51	0.55	nil	8.54	na
Lithuania	–5.7 Feb	–3.5 Feb	–10.3†	2.54	2.74	–0.5	4.65	na
Luxembourg	–5.3 Feb	+4.4 Q4	na	0.74	0.79	–0.8	4.02	na
New Zealand	–3.8 Mar	+6.2 Q4	–10.2†	1.35	1.56	3.2	6.95	6.06
Peru	+8.7 Feb	+2.5 Q4	+1.0	3.17	3.31	0.3	4.50	na
Philippines	–4.0 Feb	+5.0 Dec	+3.2	47.6	51.3	–0.7	5.75	na
Portugal	–23.3 Jan	–17.8 Feb	–7.7†	0.74	0.79	–3.3	4.02	4.33
Slovakia	–2.4 Feb	–4.6 Dec	–4.3†	24.8	29.5	–3.0	3.77	4.18
Slovenia	–2.1 Feb	–1.4 Feb	–2.3†	0.74	0.79	–1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

May 3rd 2007
From The Economist print edition

Markets

	Index May 2nd	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,211.9	+0.9	+6.0	+6.0
United States (S&P 500)	1,495.9	nil	+5.5	+5.5
United States (NAScomp)	2,557.8	+0.4	+5.9	+5.9
Japan (Nikkei 225)	17,394.9	+0.9	+1.0	+0.2
Japan (Topix)	1,704.2	+1.0	+1.4	+0.6
China (SSEA)	4,035.1	+2.5	+43.3	+45.2
China (SSEB, $ terms)	231.1	+10.9	+75.3	+77.6
Britain (FTSE 100)	6,484.5	+0.3	+4.2	+6.0
Canada (S&P TSX)	13,578.7	–0.7	+5.2	+10.5
Euro area (FTSE Euro 100)	1,382.5	+0.3	+8.1	+11.5
Euro area (DJ STOXX 50)	4,415.5	+0.3	+7.2	+10.5
Austria (ATX)	4,720.0	–0.6	+5.7	+9.0
Belgium (Bel 20)	4,675.9	+0.7	+6.5	+9.9
France (CAC 40)	5,990.1	+0.7	+8.1	+11.4
Germany (DAX)*	7,455.9	+1.5	+13.0	+16.5
Greece (Athex Comp)	4,775.9	–1.3	+8.7	+12.1
Italy (S&P/MIB)	43,836.0	+0.2	+5.8	+9.1
Netherlands (AEX)	532.2	–0.6	+7.4	+10.8
Spain (Madrid SE)	1,600.5	–1.2	+2.9	+6.1
Czech Republic (PX)	1,814.9	–0.7	+14.2	+15.2
Denmark (OMXCB)	470.5	+0.8	+10.9	+14.4
Hungary (BUX)	25,585.1	–0.1	+3.0	+8.0
Norway (OSEAX)	546.8	+1.7	+8.8	+13.5
Poland (WIG)	60,331.7	+1.3	+19.7	+25.4
Russia (RTS, $ terms)	1,911.7	–3.1	–2.7	–0.5
Sweden (Aff.Gen)	404.4	+0.3	+10.7	+12.8
Switzerland (SMI)	9,445.0	+0.2	+7.5	+8.1
Turkey (ISE)	44,256.1	–7.9	+13.1	+17.8
Australia (All Ord.)	6,224.5	+0.8	+10.3	+15.2
Hong Kong (Hang Seng)	20,388.5	–0.7	+2.1	+1.5
India (BSE)	13,872.4	–2.4	+0.6	+8.1
Indonesia (JSX)	2,008.6	+1.1	+11.2	+10.3
Malaysia (KLSE)	1,322.3	+0.5	+20.6	+24.4
Pakistan (KSE)	12,433.2	+2.2	+23.8	+24.4
Singapore (STI)	3,417.8	+1.6	+14.5	+15.1
South Korea (KOSPI)	1,553.3	+0.5	+8.3	+8.2
Taiwan (TWI)	7,903.0	–1.0	+1.0	–1.2
Thailand (SET)	705.5	+2.2	+3.8	+7.9
Argentina (MERV)	2,156.8	–1.3	+3.2	+2.6
Brazil (BVSP)	49,471.0	–0.4	+11.2	+17.2
Chile (IGPA)	14,294.4	+0.9	+15.5	+17.1
Colombia (IGBC)	10,548.1	–2.5	–5.5	+1.4
Mexico (IPC)	29,259.9	–0.6	+10.6	+9.6
Venezuela (IBC)	44,129.1	–7.5	–15.5	–7.2
Egypt (Hermes)	66,126.6	+2.4	+7.9	+8.5
Israel (TA-100)	1,084.6	+2.0	+17.7	+22.0
Saudi Arabia (Tadawul)	7,533.1	+3.6	–5.0	–5.1
South Africa (JSE AS)	28,328.1	+0.4	+13.7	+13.7
Europe (FTSEurofirst 300)	1,577.1	+0.2	+6.3	+9.6
World, dev'd (MSCI)	1,585.9	–0.1	+6.9	+6.9
Emerging markets (MSCI)	975.1	–0.8	+6.8	+6.8
World, all (MSCI)	393.1	–0.2	+6.9	+6.9
World bonds (Citigroup)	669.7	–0.6	+1.7	+1.7
EMBI+ (JPMorgan)	421.5	–0.2	+3.5	+3.5
Hedge funds (HFRX)	1,324.5	+0.4	+3.8	+3.8
Volatility, US (VIX)	13.1	13.2	11.6	(levels)
CDSs, Eur (iTRAXX)†	18.8	+4.0	–12.1	–9.4
CDSs, N Am (CDX)†	31.6	+5.4	+7.7	+7.7
Carbon trading (EU ETS) €	0.59	–3.3	–90.6	–90.3

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EFX; HKMA; Markit; Standard Bank

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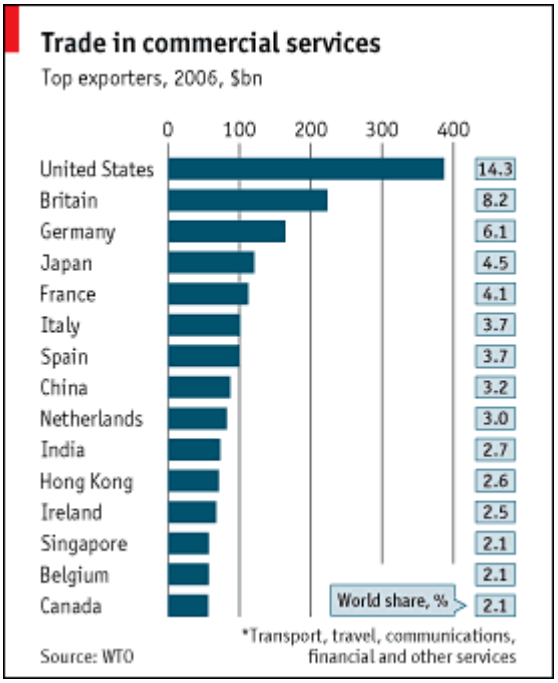
Trade in commercial services

May 3rd 2007
From The Economist print edition



According to the World Trade Organisation, trade in commercial services* (measured by totting up exports) rose by 11% in 2006, much the same pace as in the previous six years. Trade in goods rose by 15%: its growth rate has exceeded that of services trade every year since 2003. Of the countries in our chart, India enjoyed the biggest proportionate rise in services exports last year: by 34%, to $73 billion. Its imports grew even more quickly, by 40%, to $70 billion. America topped the imports league, with $307 billion, as well as that for exports, with $387 billion. Of the five categories of services listed by the WTO, “other” is the biggest and fastest-growing. It rose by 13% in 2006.

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